

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

DOCKETED

AUG 10 2009

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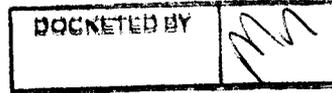
2009 AUG 10 P 3: 57

AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: August 10, 2009



RE: IN THE MATTER OF THE APPLICATION OF CELLCO PARTNERSHIP D/B/A VERIZON WIRELESS AND ALLTEL COMMUNICATIONS OF THE SOUTHWEST LIMITED PARTNERSHIP TO TRANSFER ASSETS PURSUANT TO A.R.S. §40-285 AND THE APPLICATION OF AT&T, INC. FOR A LIMITED WAIVER OF THE COMMISSION'S AFFILIATED INTEREST RULES PURSUANT TO A.A.C. R14-2-806 OR, ALTERNATIVELY, NOTICE OF INTENT BY AT&T INC. PURSUANT TO A.C.C. R14-2-803 (DOCKET NOS. T-20598A-09-0262, T-03887A-09-0262, T-02428A-09-0262, T-03016A-09-0262 AND T-03346A-09-0262)

Introduction

On May 26, 2009, Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless") and Alltel Communications of the Southwest Limited Partnership ("Alltel Southwest") and AT&T, Inc. ("AT&T") filed a joint application with the Arizona Corporation Commission ("Commission") for the purpose of effectuating the transfer of wireless assets from Verizon Wireless to ownership by AT&T's indirect subsidiary, AT&T Mobility, Inc. ("AT&T Mobility").

Verizon Wireless and its indirect subsidiary Alltel Southwest seek permission to transfer the wireless assets of Arizona Cellular Market Area ("CMA") 322, located within Gila and Pinal Counties, to AT&T Mobility pursuant to Arizona Revised Statutes ("A.R.S.") § 40-285. AT&T seeks a limited waiver of Arizona Administrative Code ("A.A.C.") R14-2-801, et seq. (the "Affiliated Interests Rules"). In the alternative, AT&T seeks the Commission's expedited review and approval of the Merger without a hearing under A.A.C. R14-2-803.B.

Staff recommends approval of Verizon Wireless' and AT&T's joint application for approval to transfer wireless assets from Verizon Wireless' indirect subsidiary Alltel Southwest to AT&T Mobility, without a hearing.

Background

Verizon Wireless' acquisition of Alltel Corporation was conditionally approved at the federal level by the Federal Communications Commission ("FCC")¹ on November 4, 2008 and the Department of Justice ("DOJ") on October 30, 2008². The Commission approved Verizon

¹ WT Docket No. 08-95

² *United States of America, et al. v. Verizon Communications, Inc., and Alltel Corporation* (Case No. 08-ev-1878 filed Oct. 30, 2008)

Wireless' acquisition of and merger with Alltel Corporation in Decision No. 70550, dated October 8, 2008³.

The Parties

AT&T, Inc. is a Delaware corporation with its headquarters at 208 South Akard Street, Dallas, Texas 75202. AT&T provides telecommunications services to businesses and individuals worldwide in addition to local service, long distance voice and data networking services throughout the United States. AT&T is also an incumbent local exchange carrier ("ILEC") in twenty-two states and provides wireless services throughout the United States under AT&T Mobility and in Arizona through New Cingular Wireless PCS, LLC.

AT&T is the holding company parent, though subsidiaries that are not involved in this transfer of assets are certificated to provide competitive telecommunications services in Arizona. AT&T's Arizona Class A subsidiaries subject to Affiliated Interests Rules are SBC Long Distance, LLC d/b/a SBC Long Distance/AT&T Long Distance ("AT&T Long Distance"), AT&T Communications of the Mountain States, Inc. ("AT&T Mountain States") and TCG Phoenix ("Arizona Operating Subsidiaries"). Through its subsidiaries, AT&T is authorized to provide competitive, local exchange, interexchange (facilities-based and resale), competitive interLATA/intraLATA, and in-state toll telecommunications services in Arizona. This transfer of wireless assets will not change the ownership, operation or corporate structure of any of AT&T's Arizona Operating Subsidiaries nor will it impact their Arizona tariffs, their ability to provide service or the terms and conditions applied to the services offered.

Verizon Wireless is a general partnership under the laws of the State of Delaware. Verizon Wireless does business in Arizona using the Verizon Wireless brand and offers an array of wireless services. Verizon Wireless currently serves over 85 million customers in 49 states. The wireless assets that Alltel Southwest will transfer to Abraham Divestiture Company, LLC ("ADC")/AT&T Mobility to comply with conditional approval requirements of the DOJ and the FCC are not used to provide basic local exchange services to any customers. The transfer of the wireless assets will have no effect on the provision of wireless services in Arizona by Verizon Wireless.

The Applicants' Requests

- a. In the Application, Verizon Wireless and its indirect subsidiary seek permission, pursuant to A.R.S. §40-285 to transfer certain wireless assets held by Alltel Southwest to AT&T Mobility. Verizon Wireless requests approval of the assets transfer within the same time frame as AT&T's requests are processed so the overall transaction can be accomplished efficiently;
- b. AT&T is seeking a limited waiver of the Affiliated Interests Rules pursuant to A.A.C. R14-2-806. AT&T indicates that given the federal mandate of this transfer of wireless assets and the resulting reorganization of AT&T Mobility

³ Docket Nos. T-20598A-08-0327 and T-03887A-08-0327

purchase, a limited waiver will facilitate prompt closing of the transaction and, therefore, more prompt enhancement of service features and offerings to customers in Gila and Pinal Counties and it is in the public interest; and

- c. Pursuant to A.A.C. R14-2-803.B, the Commission is to, within 60 days from the receipt of the notice of intent, determine whether to hold a hearing on the matter or approve the transfer of wireless assets without a hearing. In the alternative, AT&T requests that the Commission approve the Merger without a hearing and within 60 days as allowed under A.A.C. R14-2-803.B.

The Transaction

Pursuant to A.R.S. §40-285, Verizon Wireless requests the Commission to approve its request to transfer wireless assets from its indirect subsidiary Alltel Southwest to AT&T Mobility. To accomplish the transfer of assets, Verizon Wireless will cause its subsidiaries, including Alltel Southwest, that hold certain wireless assets (including CMA 322 Assets) to contribute them to ADC, an indirect subsidiary of Verizon Wireless, that will be formed prior to closing.⁴ Then Verizon Wireless will transfer its interest in ADC to AT&T Mobility, an indirect subsidiary of AT&T.

AT&T Mobility will assume control of ADC. It will operate ADC in accordance with all applicable laws, rules and regulations. As conditions permit, AT&T will integrate the ADC operations with those of AT&T Mobility. After close of the purchase of the transferred assets, AT&T Mobility will commence the conversion of Alltel Southwest's wireless system from CDMA technology to GSM technology. Current service to customers will continue through this conversion and upgrade process.

AT&T Mobility's acquisition of the wireless assets transferred to ADC will expand its wireless network in Gila and Pinal Counties that it does not presently serve and will affect approximately 21,000 customers⁵. AT&T Mobility offers additional services and features over Alltel Southwest's offerings such as an enlarged in-network calling community for Alltel customers in these counties as well as the ability to roll over unused minutes to the next month, access to advanced voice and data network, increased availability of international roaming at lower rates in 215 countries for voice services and 170 countries for data services. In addition, the Commission adopted a residential wireless arbitration program for AT&T wireless customers in Decision Nos. 68269 and 68865 and affected customers will be eligible to participate in this program.

⁴ A map illustrating the Verizon Wireless areas to be acquired by AT&T Mobility is located in Attachment A.

⁵ Verizon Wireless' Response to Staff Data Request STF 1.2.

Staff's Analysis

The Affiliated Interests Rules

The Public Utility Holding Companies and Affiliated Interests Rules apply to all Class A investor-owned utilities, defined as telecommunications carriers that have Arizona jurisdictional annual revenues of more than \$1 million. In the 2008 Annual Reports filed with the Commission, AT&T Long Distance, AT&T Mountain States, and TCG Phoenix each generated more than \$1 million in Arizona jurisdictional revenue. As indicated in a filing made by AT&T on June 30, 2009, other regulated AT&T subsidiaries SNET America and BellSouth Long Distance are not Class A utilities and therefore were not included in the Application. As a result, the Application is subject to A.A.C. R14-2-801 through 805 of the Public Utility Holding Companies and Affiliated Interests Rules.

In the Application, AT&T provided the following information as required by A.A.C. R14-2-803 (A):

1. The names and business addresses of the proposed officers and directors of the holding company --

Information concerning AT&T's directors and officers has been provided as Exhibit B of the Application.

2. The business purposes for establishing or reorganizing the holding company --

AT&T asserts the purpose for reorganizing is to acquire certain wireless assets from Verizon Wireless' indirect subsidiary Alltel Southwest. The selling of certain wireless assets by Verizon Wireless was a federally mandated merger condition adopted by both the DOJ and the FCC as part of the Verizon-Alltel merger.

3. The proposed method of financing the holding company and the resultant capital structure --

AT&T asserts no holding company is being financed as a result of the acquisition of assets from Alltel Southwest.

4. The resultant effect on the capital structure of the public utility --

AT&T indicates in the Application that the current capital structure of AT&T's Arizona Operating Subsidiaries will be unaffected by the acquisition.

5. An organization chart of the holding company that identifies all affiliates and their relationships within the holding company ---

AT&T provided acquisition organization charts for AT&T in Exhibit C of the Application.⁶ At closing, ADC will become an indirect subsidiary of AT&T.

6. The proposed method for allocating federal and state income taxes to the subsidiaries of the holding company --

AT&T has stated that Federal and State income tax allocations among AT&T and its subsidiaries are consistent with the provisions of Treasury Regulation Sections 1.1552-1(a)(3)(ii) and 1.1502-33(d)(2). In general, the tax liability will be allocated to each affiliated group member on the basis of each member's contribution to consolidated taxable income. The contribution to consolidated taxable income is based on a separate return taxable income calculation adjusted for consolidating eliminations.

AT&T and its subsidiaries' income tax provision reflect the financial consequences of income, deductions and credits based on a separate return basis for each subsidiary. Deferred income taxes are also provided at each subsidiary level for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

7. The anticipated changes in the utility's cost of service and the cost of capital attributable to the reorganizations --

The acquisition of assets from Alltel Southwest will have no impact on the cost of service of AT&T's Arizona Operating Subsidiaries.

8. A description of diversification plans of affiliates of the holding company --

AT&T has no current plans to diversify in Arizona beyond the businesses in which their subsidiaries are currently engaged.

9. Copies of all relevant documents and filings with the United States Securities and Exchange Commission and other federal or state agencies --

The acquisition of assets from Alltel Southwest requires approval from no other state regulatory commission. A filing concerning the acquisition of assets has been made with the FCC and a copy is included in the Application as Exhibit D.

10. The contemplated annual and cumulative investment in each affiliate for the next five years, in dollars and as a percentage of projected net utility plant, and an explanation of the reasons supporting the level of investment and the reasons this level will not increase the risks of investment in the public utility --

⁶ A chart depicting AT&T's post-transaction organization is located in Attachment B.

The acquisition of assets from Alltel Southwest will not affect investment in AT&T's Arizona Operating Subsidiaries.

11. An explanation of the manner in which the utility can assure that adequate capital will be available for the construction of necessary new utility plant and for improvements in existing utility plant at no greater cost than if the utility or its affiliate did not organize or reorganize a public utility holding company --

AT&T's Arizona Operating Subsidiaries will be able to attract capital on terms no less favorable than prior to the acquisition. Adequate capital will continue to be available for construction of any necessary new utility plant and necessary improvements at no greater cost than today.

AT&T states that after the transaction closes, it will provide continuity of service to affected customers as they will continue to receive service and be able to contact customer care through existing contact numbers.⁷ Once AT&T has upgraded the acquired network to GSM technology, which may take up to one year after the transaction closes, it will work with the affected customers to either obtain GSM compatible handsets and an AT&T Mobility rate plan or allow the customer to discontinue service without incurring an early termination fee if customers have not fulfilled their contract terms. The proposed acquisition is not expected to impair the financial status of AT&T's Arizona Operating Subsidiaries; neither preventing them from attracting capital at fair and reasonable terms nor impairing the ability to provide safe, reasonable, and adequate service. Based on the information provided, Staff has concluded that AT&T has complied with the requirements of A.A.C. R14-2-803(C) and 804(C).

Jurisdiction

In its Application, AT&T states it is submitting "this Notice of Intent without waiver of its position that this transaction is not subject to the Commission's jurisdiction for several reasons, including, but not limited to, the express federal preemption of its entry and rate jurisdiction over wireless carriers and the fact that compliance with its Affiliate Interest Rules constitutes an unconstitutional and unreasonable burden on interstate commerce in circumstances such as these. AT&T is, nevertheless, making this filing in the hope of avoiding any debate over these and other jurisdictional issues and with the hope it can be ruled on expeditiously".

The Commission has previously found that it has jurisdiction over transactions of this nature.⁸

The Public Interest

AT&T is in compliance with Decision No. 68269 in which the Commission approved the merger of SBC Communications, Inc. and AT&T. AT&T is also in compliance with Decision No. 68865 in which the Commission approved the merger of BellSouth Corporation and AT&T.

⁷ AT&T Response to Staff Data Request STF 1.11.

⁸ e.g., Decision Nos. 70550, 69964 and 68177

The Commission found that the program for arbitration for residential wireless customers was in the public interest in these Decisions and AT&T states that the Commission may consider this Application to be its written consent to the residential arbitration program for the affected customers.⁹

Addressing the effect the transfer of wireless assets will have on Verizon Wireless' and AT&T's overall investment in Arizona, Verizon Wireless anticipates that substantially all of the employees dedicated to CMA 322 will be transferred to AT&T. Since CMA 322 is operated as a separate business by a management trustee, pursuant to agreements with the DOJ and the FCC and is not part of Verizon Wireless' operations in Arizona, the transfer of wireless assets will have no impact on the Arizona workforce and Arizona operations for the remaining Verizon Wireless units.¹⁰ After the acquisition closes, AT&T indicates it will evaluate the combined company's staffing, store locations and network distribution facilities in the Gila and Pinal County areas in order to enhance its sales operations and achieve optimum network deployment. AT&T has indicated that it is keenly interested in serving its customers' needs in Arizona including maintaining adequate distribution locations where consumers can purchase and update their service. AT&T currently anticipates that neither AT&T's nor Alltel Southwest's Arizona workforce will be reduced as a result of the transfer of wireless assets. AT&T's capital investment in Arizona will likely increase as a result of the acquisition because Alltel Southwest's existing network uses CDMA technology and it will need to be upgraded to AT&T's GSM technology.¹¹

In recognition of impending changes and to minimize the impact in the affected customers, Verizon Wireless announced June 5, 2009, that all new and renewing customers' postpaid contracts will be for one year but customers will be able to purchase equipment at the same prices as the standard two-year contract.¹² For those affected customers for which Alltel Southwest still holds deposits, Verizon Wireless states if not previously resolved in the normal course of business, at the time of closing on the transaction, AT&T Mobility will assume the obligation to repay the deposits to customers when due (and Cellco Partnership will compensate AT&T Mobility dollar-for-dollar for assuming the obligation as part of a working capital adjustment).¹³

After the transfer of wireless assets is complete, AT&T Mobility will continue to provide service to affected customers under their existing Alltel Southwest contract terms including provisions governing security deposits and access to customer care through existing contact numbers. Both AT&T Mobility and the customers are expected to fulfill the contractual commitments for the remaining term of the contract. As the network conversion to GSM progresses, AT&T Mobility will be notifying customers directly regarding the availability of upgraded AT&T service in the area. Once the new technology is available in an area, affected customers will have the option to convert to an AT&T rate plan and device. After the transition

⁹ See Page 8, Paragraph 15 of the Application.

¹⁰ Verizon Wireless' Response to Staff Data Request 1.5.

¹¹ AT&T's Response to Staff Data Request 1.5.

¹² Verizon Wireless' Response to Staff Data Request 1.1.1.

¹³ Verizon Wireless' Response to Staff Data Request 1.4.A.

period, which may take up to one year after the transaction closes, CDMA customers will need to switch to an AT&T rate plan and device to continue to receive service. Customers will not have an option to get a free replacement handset without signing a new service contract. Those customers opting to stay with AT&T Mobility will be able to take advantage of any handset promotions or special offers in effect at the time they need to obtain a handset device compatible with the GSM platform.¹⁴ Once the network conversion is completed, any customers with time remaining on their service contracts will not incur an early termination fee ("ETF") regardless if they stay with AT&T and upgrade their handset device and calling plan or discontinue service.¹⁵

The transfer of wireless assets will not impact AT&T's ability to provide service continuity for the affected customers in Gila and Pinal Counties and will have no impact on the rates, terms and conditions of Verizon Wireless subsidiaries' or AT&T subsidiaries' Arizona tariffs or on their ability to provide service. As supported by information provided by the parties, Staff believes that the proposed transfer of wireless assets will not impair the financial status of Verizon Wireless' nor AT&T's Arizona Operating Subsidiaries nor prevent their ability to attract capital at fair and reasonable terms and to provide safe, reasonable, and adequate service.

The AT&T Arizona Operating Subsidiaries are up to date with filing their 2008 annual diversification activities and plans as required by A.A.C. R14-2-805.

AT&T indicates its intent to provide Alltel's Gila and Pinal County customers with direct notice welcoming them to AT&T immediately following the close of the transaction and a copy of that notice was provided to Staff.¹⁶ Direct notice will be in both English and Spanish. On June 24, 2009, the parties jointly filed Affidavits of Publication confirming publication of legal notice in the *Casa Grande Dispatch* on June 16, 2009, and the *Arizona Silver Belt* on June 17, 2009.

Both AT&T and the Consumer Services Section report no complaints in Arizona against AT&T or any of AT&T's Arizona Operating Subsidiaries related to the transfer of wireless assets. AT&T also reports no outstanding or unresolved consumer complaints, relevant proceedings, or issues in any of AT&T's other States specifically related to AT&T's acquisition of Alltel Southwest's assets in Gila and Pinal Counties. The Corporations Division of the Arizona Corporation Commission has indicated that AT&T's Arizona Operating Subsidiaries are in good standing and the Compliance Section states there are no delinquencies.

Staff is not aware of any concerns or objections filed by any entity or individual. Staff reviewed the Application and considered all responses to Staff's data requests.

Staff's Recommendations

Staff recommends that AT&T's request for a waiver of the Affiliated Interests Rules be denied. Staff further recommends that the Application of Verizon Wireless in relation to the

¹⁴ AT&T Response to Staff Data Request STF 1.7.C.

¹⁵ AT&T Response to Staff Data Request STF 1.8.

¹⁶ AT&T Response to Staff Data Request STF 1.7.A.

transfer of wireless assets to AT&T be approved pursuant to A.R.S. §40-285 and the Public Utility Holding Companies and Affiliated Interests Rules A.A.C. R14-2-801 et seq. Staff also recommends that the Application be approved without a hearing because this transaction does not:

- a. impair the financial status of the Applicants;
- b. affect the Applicants' ability to attract capital at fair and reasonable terms;
- c. affect the Applicants' ability to provide safe, reasonable and adequate service;
- d. adversely affect customers.

Staff further recommends that approval be conditioned on the following:

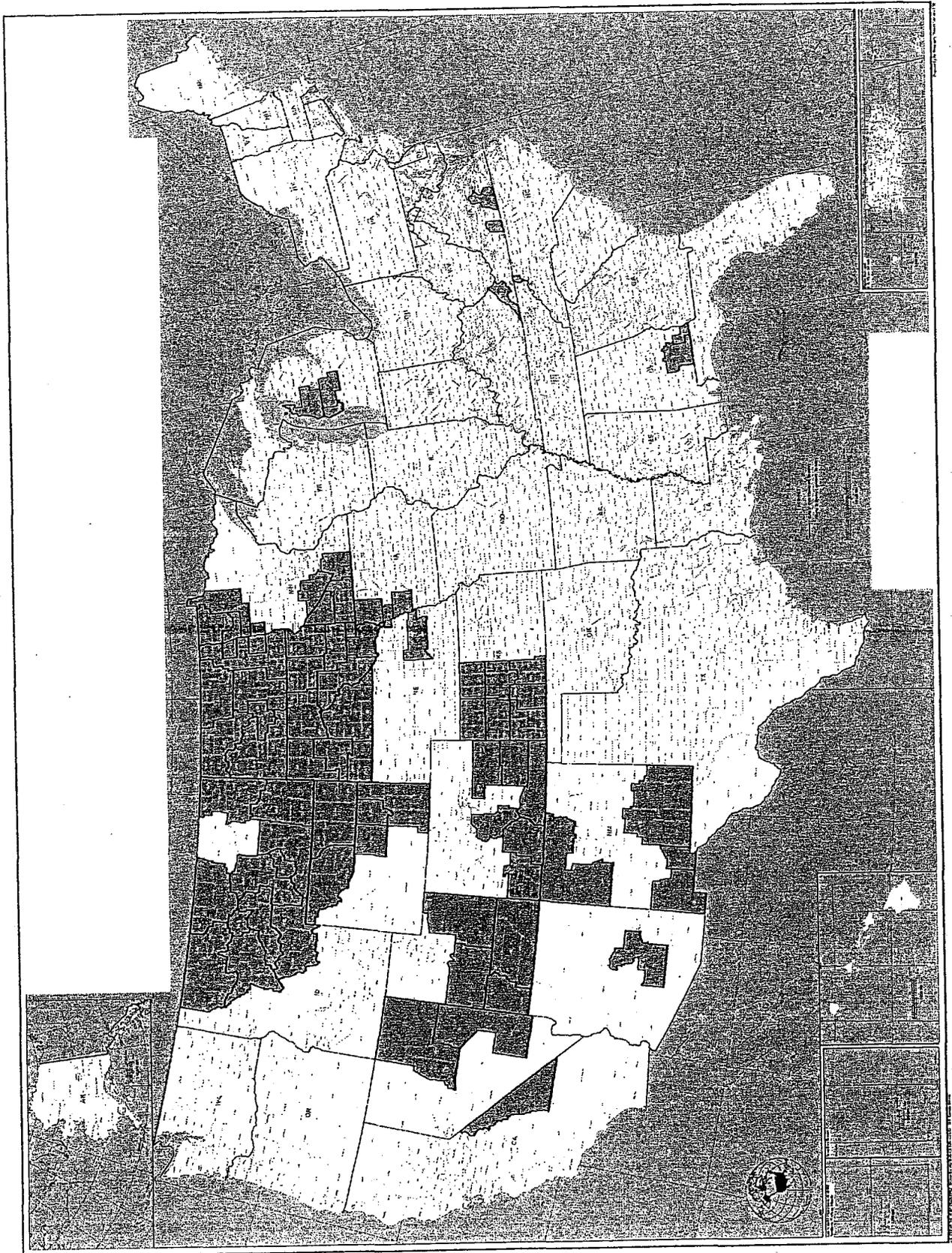
- a. That Verizon Wireless and AT&T provide notice to the Commission within 30 days following the closure of the transfer of wireless assets proposed in this application.
- b. That for one year following the closure of the transfer of wireless assets or until Verizon Wireless and AT&T informs the Commission by filing an affidavit with Docket Control that transfer of wireless assets-related activities are completed, whichever occurs last, Verizon Wireless and AT&T provide written notification in Docket Control at least 60 days in advance, of any planned transfer of assets-related Arizona workforce layoffs; any planned transfer of assets-related Arizona plant closings; and any planned transfer of assets-related Arizona facility closings.
- c. That AT&T notifies affected customers in Gila and Pinal Counties of the acquisition through a direct mailing to those customers. Verification of the notice should be filed with Docket Control within 90 days of the closure of the transfer of wireless assets.



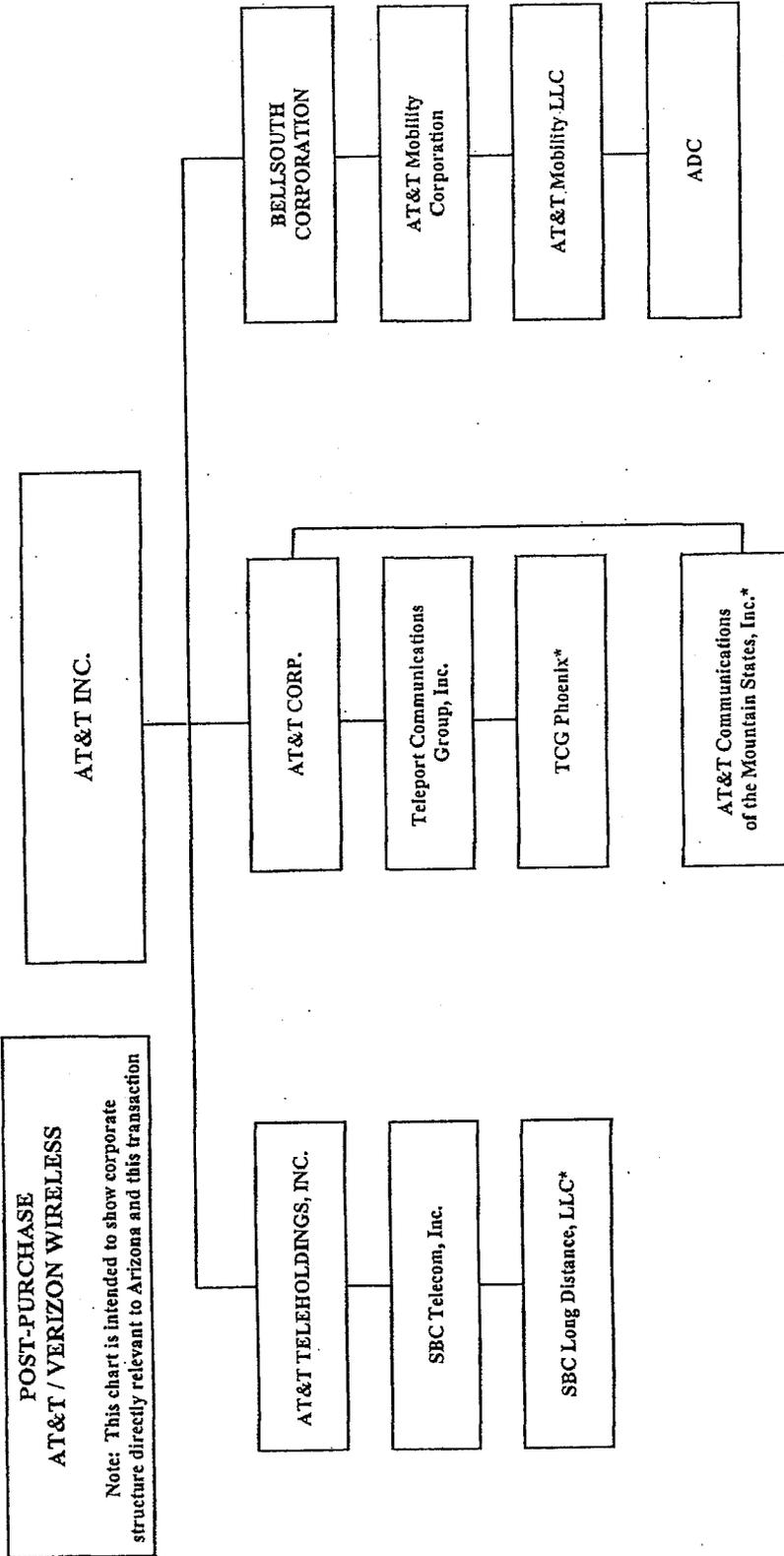
Steven M. Olea
Director
Utilities Division

SMO:LLM:ihm\AH

ORIGINATOR: Lori Morrison



AT&T INC.



**POST-PURCHASE
AT&T / VERIZON WIRELESS**
Note: This chart is intended to show corporate structure directly relevant to Arizona and this transaction

* These entities hold certificates in Arizona.

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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION)
OF CELCO PARTNERSHIP DBA)
VERIZON WIRELESS AND ALLTEL)
COMMUNICATIONS OF THE)
SOUTHWEST LIMITED PARTNERSHIP)
TO TRANSFER ASSETS PURSUANT TO)
A.R.S. §40-285)

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COMMISSION'S AFFILIATED INTEREST)
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OR, ALTERNATIVELY, NOTICE OF)
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DOCKET NOS. T-20598A-09-0262
T-03887A-09-0262
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T-03346A-09-0262

DECISION NO. _____

ORDER

Open Meeting
August 25 and 26, 2009
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. On May 26, 2009, Cellco Partnership d/b/a Verizon Wireless ("Verizon Wireless") and Alltel Communications of the Southwest Limited Partnership ("Alltel Southwest") and AT&T, Inc. ("AT&T") filed a joint application with the Arizona Corporation Commission ("Commission") for the purpose of effectuating the transfer of wireless assets from Verizon Wireless to ownership by AT&T's indirect subsidiary, AT&T Mobility, Inc. ("AT&T Mobility").

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1 2. Verizon Wireless and its indirect subsidiary Alltel Southwest seek permission to
2 transfer the wireless assets of Arizona Cellular Market Area (“CMA”) 322, located within Gila and
3 Pinal Counties, to AT&T Mobility pursuant to Arizona Revised Statutes (“A.R.S.” § 40-285.
4 AT&T seeks a limited waiver of Arizona Administrative Code (“A.A.C.”) R14-2-801, et seq. (the
5 “Affiliated Interests Rules”). In the alternative, AT&T seeks the Commission’s expedited review
6 and approval of the Merger without a hearing under A.A.C. R14-2-803.B.

7 3. Staff recommends approval of Verizon Wireless’ and AT&T’s joint application for
8 approval to transfer wireless assets from Verizon Wireless’ indirect subsidiary Alltel Southwest to
9 AT&T Mobility, without a hearing.

10 **Background**

11 4. Verizon Wireless’ acquisition of Alltel Corporation was conditionally approved at
12 the federal level by the Federal Communications Commission (“FCC”)¹ on November 4, 2008 and
13 the Department of Justice (“DOJ”) on October 30, 2008². The Commission approved Verizon
14 Wireless’ acquisition of and merger with Alltel Corporation in Decision No. 70550, dated
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17 5. AT&T, Inc. is a Delaware corporation with its headquarters at 208 South Akard
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19 individuals worldwide in addition to local service, long distance voice and data networking
20 services throughout the United States. AT&T is also an incumbent local exchange carrier
21 (“ILEC”) in twenty-two states and provides wireless services throughout the United States under
22 AT&T Mobility and in Arizona through New Cingular Wireless PCS, LLC.

23 6. AT&T is the holding company parent, though subsidiaries that are not involved in
24 this transfer of assets are certificated to provide competitive telecommunications services in
25 Arizona. AT&T’s Arizona Class A subsidiaries, subject to Affiliated Interests Rules, are SBC

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21 AT&T asserts the purpose for reorganizing is to acquire certain wireless assets from
22 Verizon Wireless' indirect subsidiary Alltel Southwest. The selling of certain
23 wireless assets by Verizon Wireless was federally mandated merger condition
24 adopted by both the DOJ and the FCC as part of the Verizon-Alltel merger.

25 (c) The proposed method of financing the holding company and the resultant capital
26 structure --

27 AT&T asserts no holding company is being financed as a result of the acquisition of
28 assets from Alltel Southwest.

(d) The resultant effect on the capital structure of the public utility --

AT&T indicates in the Application that the current capital structure of AT&T's
Arizona Operating Subsidiaries will be unaffected by the acquisition.

...

- 1 (e) An organization chart of the holding company that identifies all affiliates and their
2 relationships within the holding company --

3 AT&T provided acquisition organization charts for AT&T in Exhibit C of the
4 Application.⁶ At closing, ADC will become an indirect subsidiary of AT&T.

- 5 (f) The proposed method for allocating federal and state income taxes to the
6 subsidiaries of the holding company --

7 AT&T has stated that Federal and State income tax allocations among AT&T and
8 its subsidiaries are consistent with the provisions of Treasury Regulation Sections
9 1.1552-1(a)(3)(ii) and 1.1502-33(d)(2). In general, the tax liability will be allocated
10 to each affiliated group member on the basis of each member's contribution to
11 consolidated taxable income. The contribution to consolidated taxable income is
12 based on a separate return taxable income calculation adjusted for consolidating
13 eliminations.

14 AT&T and its subsidiaries' income tax provision reflect the financial consequences
15 of income, deductions and credits based on a separate return basis for each
16 subsidiary. Deferred income taxes are also provided at each subsidiary level for
17 temporary differences between the carrying amounts of assets and liabilities for
18 financial reporting purposes and the amounts used for tax purposes.

- 19 (g) The anticipated changes in the utility's cost of service and the cost of capital
20 attributable to the reorganizations --

21 The acquisition of assets from Alltel Southwest will have no impact on the cost of
22 service of AT&T's Arizona Operating Subsidiaries.

- 23 (h) A description of diversification plans of affiliates of the holding company --

24 AT&T has no current plans to diversify in Arizona beyond the businesses in which
25 their subsidiaries are currently engaged.

- 26 (i) Copies of all relevant documents and filings with the United States Securities and
27 Exchange Commission and other federal or state agencies --

28 The acquisition of assets from Alltel Southwest requires approval from no other
state regulatory commission. A filing concerning the acquisition of assets has been
made with the FCC and a copy is included in the Application as Exhibit D.

- (j) The contemplated annual and cumulative investment in each affiliate for the next
five years, in dollars and as a percentage of projected net utility plant, and an
explanation of the reasons supporting the level of investment and the reasons this
level will not increase the risks of investment in the public utility --

The acquisition of assets from Alltel Southwest will not affect investment in
AT&T's Arizona Operating Subsidiaries.

- (k) An explanation of the manner in which the utility can assure that adequate capital
will be available for the construction of necessary new utility plant and for
improvements in existing utility plant at no greater cost than if the utility or its
affiliate did not organize or reorganize a public utility holding company --

⁶ A chart depicting AT&T's post-transaction organization is located in Attachment B.

1 AT&T's Arizona Operating Subsidiaries will be able to attract capital on terms no
2 less favorable than prior to the acquisition. Adequate capital will continue to be
3 available for construction of any necessary new utility plant and necessary
4 improvements at no greater cost than today.

5 AT&T states that after the transaction closes, it will provide continuity of service to
6 affected customers as they will continue to receive service and be able to contact customer care
7 through existing contact numbers.⁷ Once AT&T has upgraded the acquired network to GSM
8 technology, which may take up to one year after the transaction closes, it will work with the
9 affected customers to either obtain GSM compatible handsets and an AT&T Mobility rate plan or
10 allow the customer to discontinue service without incurring an early termination fee if customers
11 have not fulfilled their contract terms. The proposed acquisition is not expected to impair the
12 financial status of AT&T's Arizona Operating Subsidiaries; neither preventing them from
13 attracting capital at fair and reasonable terms nor impairing the ability to provide safe, reasonable,
14 and adequate service. Based on the information provided, Staff has concluded that AT&T has
15 complied with the requirements of A.A.C. R14-2-803(C) and 804(C).

15 **Jurisdiction**

16 16. In its Application, AT&T states it is submitting "this Notice of Intent without
17 waiver of its position that this transaction is not subject to the Commission's jurisdiction for
18 several reasons, including, but not limited to, the express federal preemption of its entry and rate
19 jurisdiction over wireless carriers and the fact that compliance with its Affiliate Interest Rules
20 constitutes an unconstitutional and unreasonable burden on interstate commerce in circumstances
21 such as these. AT&T is, nevertheless, making this filing in the hope of avoiding any debate over
22 these and other jurisdictional issues and with the hope it can be ruled on expeditiously".

23 17. The Commission has previously found that it has jurisdiction over transactions of
24 this nature.⁸

25 ...

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28 ⁷ AT&T Response to Staff Data Request STF 1.11.

⁸ e.g., Decision Nos. 70550, 69964 and 68177

1 **The Public Interest**

2 18. AT&T is in compliance with Decision No. 68269 in which the Commission
3 approved the merger of SBC Communications, Inc. and AT&T. AT&T is also in compliance with
4 Decision No. 68865 in which the Commission approved the merger of BellSouth Corporation and
5 AT&T. The Commission found that the program for arbitration for residential wireless customers
6 was in the public interest in these Decisions and AT&T states that the Commission may consider
7 this Application to be its written consent to the residential arbitration program for the affected
8 customers.⁹

9 19. Addressing the effect the transfer of wireless assets will have on Verizon Wireless'
10 and AT&T's overall investment in Arizona, Verizon Wireless anticipates that substantially all of
11 the employees dedicated to CMA 322 will be transferred to AT&T. Since CMA 322 is operated as
12 a separate business by a management trustee, pursuant to agreements with the DOJ and the FCC
13 and is not part of Verizon Wireless' operations in Arizona, the transfer of wireless assets will have
14 no impact on the Arizona workforce and Arizona operations for the remaining Verizon Wireless
15 units.¹⁰ After the acquisition closes, AT&T indicates it will evaluate the combined company's
16 staffing, store locations and network distribution facilities in the Gila and Pinal County areas in
17 order to enhance its sales operations and achieve optimum network deployment. AT&T has
18 indicated that it is keenly interested in serving its customers' needs in Arizona including
19 maintaining adequate distribution locations where consumers can purchase and update their
20 service. AT&T currently anticipates that neither AT&T's nor Alltel Southwest's Arizona
21 workforce will be reduced as a result of the transfer of wireless assets. AT&T's capital investment
22 in Arizona will likely increase as a result of the acquisition because Alltel Southwest's existing
23 network uses CDMA technology and it will need to be upgraded to AT&T's GSM technology.¹¹

24 20. In recognition of impending changes and to minimize the impact in the affected
25 customers, Verizon Wireless announced June 5, 2009, that all new and renewing customers'
26 postpaid contracts will be for one year but customers will be able to purchase equipment at the

27 ⁹ See Page 8, Paragraph 15 of the Application.

28 ¹⁰ Verizon Wireless' Response to Staff Data Request 1.5.

¹¹ AT&T's Response to Staff Data Request 1.5.

1 same prices as the standard two-year contract.¹² For those affected customers for which Alltel
2 Southwest still holds deposits, Verizon Wireless states if not previously resolved in the normal
3 course of business, at the time of closing on the transaction, AT&T Mobility will assume the
4 obligation to repay the deposits to customers when due (and Cellco Partnership will compensate
5 AT&T Mobility dollar-for-dollar for assuming the obligation as part of a working capital
6 adjustment).¹³

7 21. After the transfer of wireless assets is complete, AT&T Mobility will continue to
8 provide service to affected customers under their existing Alltel Southwest contract terms
9 including provisions governing security deposits and access to customer care through existing
10 contact numbers. Both AT&T Mobility and the customers are expected to fulfill the contractual
11 commitments for the remaining term of the contract. As the network conversion to GSM
12 progresses, AT&T Mobility will be notifying customers directly regarding the availability of
13 upgraded AT&T service in the area. Once the new technology is available in an area, affected
14 customers will have the option to convert to an AT&T rate plan and device. After the transition
15 period, which may take up to one year after the transaction closes, CDMA customers will need to
16 switch to an AT&T rate plan and device to continue to receive service. Customers will not have
17 an option to get a free replacement handset without signing a new service contract. Those
18 customers opting to stay with AT&T Mobility will be able to take advantage of any handset
19 promotions or special offers in effect at the time they need to obtain a handset device compatible
20 with the GSM platform.¹⁴ Once the network conversion is completed, any customers with time
21 remaining on their service contracts will not incur an early termination fee ("ETF") regardless if
22 they stay with AT&T and upgrade their handset device and calling plan or discontinue service.¹⁵

23 22. The transfer of wireless assets will not impact AT&T's ability to provide service
24 continuity for the affected customers in Gila and Pinal Counties and will have no impact on the
25 rates, terms and conditions of Verizon Wireless subsidiaries' or AT&T subsidiaries' Arizona

26 _____
27 ¹² Verizon Wireless' Response to Staff Data Request 1.11.

¹³ Verizon Wireless' Response to Staff Data Request 1.4.A.

28 ¹⁴ AT&T Response to Staff Data Request STF 1.7.C.

¹⁵ AT&T Response to Staff Data Request STF 1.8.

1 tariffs or on their ability to provide service. As supported by information provided by the parties,
2 Staff believes that the proposed transfer of wireless assets will not impair the financial status of
3 Verizon Wireless' nor AT&T's Arizona Operating Subsidiaries nor prevent their ability to attract
4 capital at fair and reasonable terms and to provide safe, reasonable, and adequate service.

5 23. The AT&T Arizona Operating Subsidiaries are up to date with filing their 2008
6 annual diversification activities and plans as required by A.A.C. R14-2-805.

7 24. AT&T indicates its intent to provide Alltel's Gila and Pinal County customers with
8 direct notice welcoming them to AT&T immediately following the close of the transaction and a
9 copy of that notice was provided to Staff.¹⁶ Direct notice will be in both English and Spanish.
10 On June 24, 2009, the parties jointly filed Affidavits of Publication confirming publication of legal
11 notice in the *Casa Grande Dispatch* on June 16, 2009 and the *Arizona Silver Belt* on June 17,
12 2009.

13 25. Both AT&T and the Consumer Services Section report no complaints in Arizona
14 against AT&T or any of AT&T's Arizona Operating Subsidiaries related to the transfer of wireless
15 assets. AT&T also reports no outstanding or unresolved consumer complaints, relevant
16 proceedings, or issues in any of AT&T's other States specifically related to AT&T's acquisition of
17 Alltel Southwest's assets in Gila and Pinal Counties. The Corporations Division of the Arizona
18 Corporation Commission has indicated that AT&T's Arizona Operating Subsidiaries are in good
19 standing and the Compliance Section states there are no delinquencies.

20 26. Staff is not aware of any concerns or objections filed by any entity or individual.
21 Staff reviewed the Application and considered all responses to Staff's data requests.

22 **Staff's Recommendations**

23 27. Staff recommends that AT&T's request for a waiver of the Affiliated Interests
24 Rules be denied. Staff further recommends that the Application of Verizon Wireless in relation to
25 the transfer of wireless assets to AT&T be approved pursuant to A.R.S. §40-285 and the Public

26 ...

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28 ¹⁶ AT&T Response to Staff Data Request STF 1.7.A.

1 Utility Holding Companies and Affiliated Interests Rules A.A.C. R14-2-801 et seq. Staff also
2 recommends that the Application be approved without a hearing because this transaction does not:

- 3 (a) impair the financial status of the Applicants;
- 4 (b) affect the Applicants' ability to attract capital at fair and reasonable terms;
- 5 (c) affect the Applicants' ability to provide safe, reasonable and adequate service;
- 6 (d) adversely affect customers.

7 28. Staff further recommends that approval be conditioned on the following:

8 (a) That Verizon Wireless and AT&T provide notice to the Commission within 30 days
9 following the closure of the transfer of wireless assets proposed in this application.

10 (b) That for one year following the closure of the transfer of wireless assets or until
11 Verizon Wireless and AT&T informs the Commission by filing an affidavit with
12 Docket Control that transfer of wireless assets-related activities are completed,
13 whichever occurs last, Verizon Wireless and AT&T provide written notification
14 Docket Control, at least 60 days in advance, of any planned transfer of assets-
15 related Arizona workforce layoffs; any planned transfer of assets-related Arizona
16 plant closings; and any planned transfer of assets-related Arizona facility closings.

17 29. That AT&T notifies affected customers in Gila and Pinal Counties of the
18 acquisition through a direct mailing to those customers. Verification of the notice should be filed
19 with Docket Control within 90 days of the closure of the transfer of wireless assets.

20 CONCLUSIONS OF LAW

21 1. Verizon Wireless and AT&T are public service corporations within the meaning of
22 Article XV of the Arizona Constitution.

23 2. The Commission has jurisdiction over Cellco Partners d/b/a Verizon Wireless and
24 AT&T and the subject matter in this filing.

25 3. The Commission, having reviewed the filing and Staff's Memorandum dated
26 August 10, 2009, concludes that it is in the public interest to grant the Application of Cellco
27 Partners d/b/a Verizon Wireless and AT&T, Inc. pursuant to the Public Utility Holding Companies
28 and Affiliated Interests Rules, A.A.C. R14-2-801 et seq., in connection with Verizon Wireless'
proposed transfer of certain wireless assets to AT&T and to approve the transaction under A.R.S. §
40-285, as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that the Application of AT&T, Inc. for approval under the Public Utility Holding Companies and Affiliated Interests Rules, A.A.C. R14-2-801 et seq., in connection with a proposed transaction whereby Verizon Wireless with transfer of wireless assets to AT&T and for approval under A.R.S. § 40-285 be and hereby is approved as discussed herein.

IT IS FURTHER ORDERED that AT&T's request for a waiver of the Affiliated Interests Rules is denied.

IT IS FURTHER ORDERED that Verizon Wireless and AT&T provide notice to the Commission within 30 days following the closure of the transfer of wireless assets proposed in this application.

IT IS FURTHER ORDERED that for one year following the closure of the transfer of wireless assets or until Verizon Wireless and AT&T informs the Commission by filing an affidavit with Docket Control that transfer of wireless assets-related activities are completed, whichever occurs last, Verizon Wireless and AT&T provide written notification with Docket Control, at least 60 days in advance, of any planned merger-related Arizona workforce layoffs; any planned merger-related Arizona plant closings; and any planned merger-related Arizona facility closings.

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IT IS FURTHER ORDERED that AT&T notify affected customers in Gila and Pinal Counties of the acquisition through a direct mailing to those customers with verification of the notice filed with Docket Control within 90 days of the closure of the transfer of wireless assets.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2009.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:LLM:lh\AH

1 SERVICE LIST FOR: Verizon Wireless and AT&T, Inc.
2 DOCKET NOS. T-20598A-09-0262, et al.

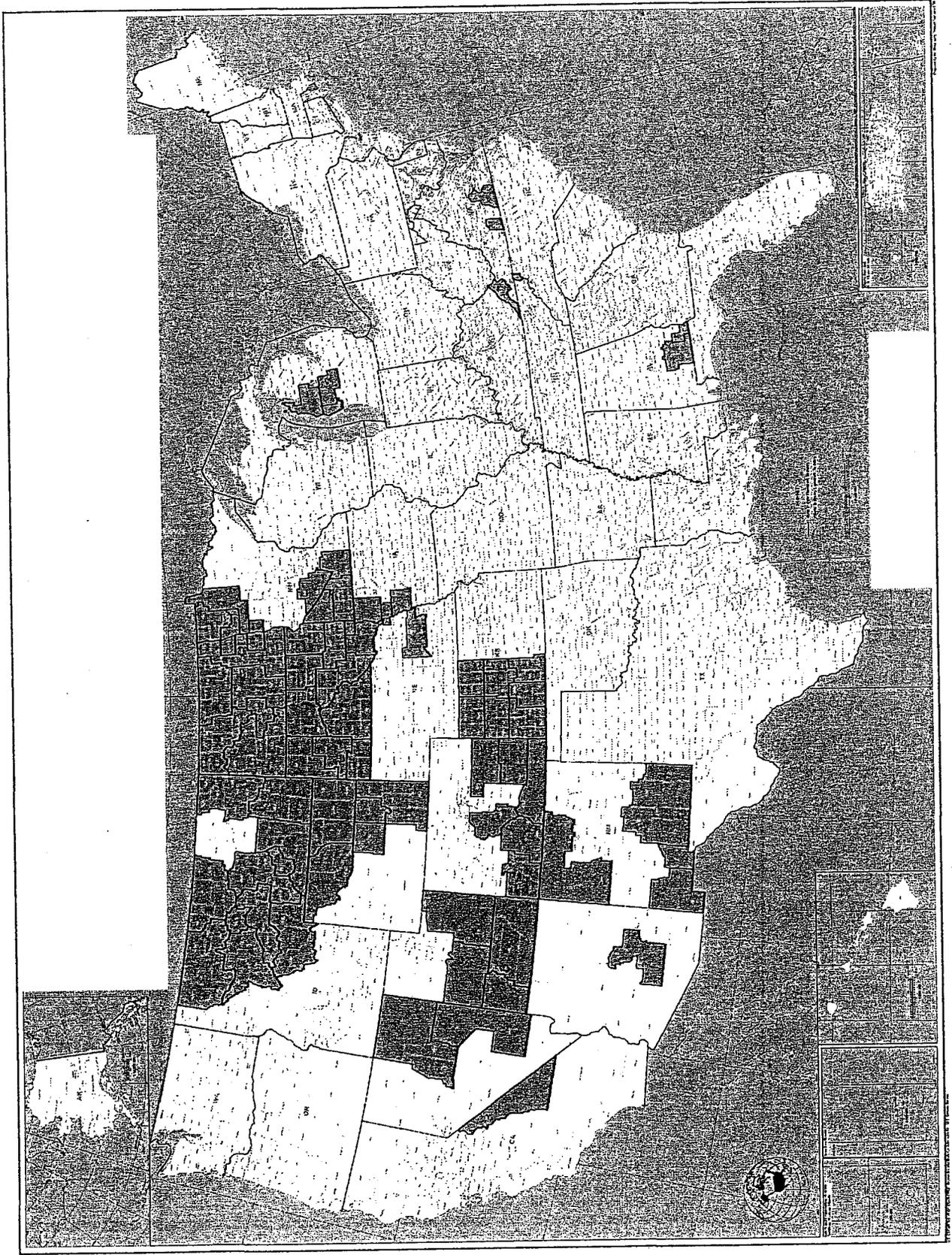
3 Mr. Michael M. Grant
4 Gallagher & Kennedy, P.A.
5 2575 East Camelback Road
6 Phoenix, Arizona 85016-9225
7 Attorneys for AT&T, Inc.

8 Mr. Michael T. Hallem
9 40 North Central Avenue, Suite 1900
10 Phoenix, Arizona 85004
11 Attorneys for Verizon Wireless

12 Mr. Steven M. Olea
13 Director, Utilities Division
14 Arizona Corporation Commission
15 1200 West Washington Street
16 Phoenix, Arizona 85007

17 Ms. Janice M. Alward
18 Chief Counsel, Legal Division
19 Arizona Corporation Commission
20 1200 West Washington Street
21 Phoenix, Arizona 85007

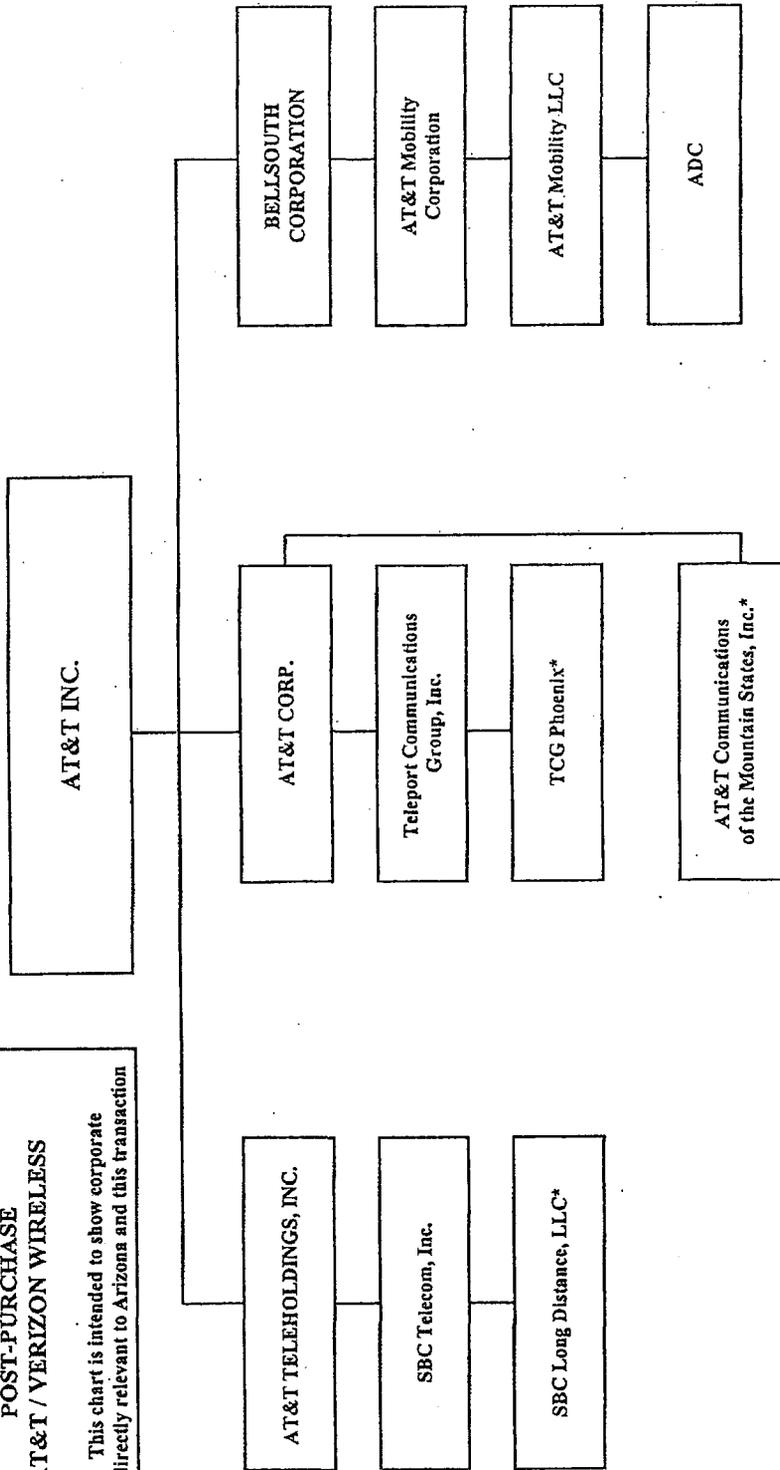
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AT&T INC.

POST-PURCHASE
AT&T / VERIZON WIRELESS

Note: This chart is intended to show corporate structure directly relevant to Arizona and this transaction



* These entities hold certificates in Arizona.