STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of New York on March 16, 1999

COMMISSIONERS PRESENT:

Maureen O. Helmer, Chairman
Thomas J. Dunleavy
James D. Bennett

CASE 98-C-1443 - Petition of Bell Atlantic Corporation for Approval of Agreement and Plan of Merger with GTE Corporation.

ORDER GRANTING APPROVAL OF MERGER

(Issued and Effective August 12, 1999)

BY THE COMMISSION:

BACKGROUND

By petition dated October 2, 1998, Bell Atlantic Corporation (Bell Atlantic) requested permission, pursuant to Section 100 of the Public Service Law, for a transaction whereby GTE Corporation (GTE) will merge into and become a wholly-owned subsidiary of Bell Atlantic. A Notice Inviting Comments was issued on October 30, 1998.

Bell Atlantic, a Delaware corporation with its headquarters in New York, is the parent corporation of New York Telephone Company, d/b/a Bell Atlantic-New York, Inc. (BA-NY). Through its subsidiaries, including BA-NY, Bell Atlantic has more than 40 million access lines in service across 14 jurisdictions, from Virginia to Maine. BA-NY, an incumbent local exchange carrier authorized to provide local and intraLATA toll service throughout most of New York, currently serves 11 million access lines in New York.

GTE, a New York corporation with its principal office in Irving, Texas, is the parent corporation of GTE

Communications Corporation (GTECC) and GTE Telecommunications Services, Inc. (GTE TSI). Through its local exchange company and subsidiaries in 28 states (not including New York), GTE has more than 22 million access lines in service as an incumbent local exchange carrier. Through GTECC, a reseller of services, GTE also is authorized to provide long-distance, operator, and/or prepaid calling card services in and among all 50 states, including New York where it has fewer than 20,000 customers. GTE TSI is authorized to provide resold long-distance service in certain states, including New York, where it currently has no customers.

THE PETITION

Bell Atlantic and GTE executed an "Agreement and Plan of Merger" dated July 27, 1998, whereby GTE will become a wholly-owned subsidiary of Bell Atlantic. BA-NY will continue to operate as a wholly-owned subsidiary of Bell Atlantic. The combined company, based on a 1997 pro forma financial analysis included in the petition, will have annual revenues of $53 billion and assets of approximately $92 billion. The headquarters of the combined company will remain in New York City, and its Board of Directors will have equal numbers of directors designated by Bell Atlantic and GTE.

The applicant states that the merger between Bell Atlantic and GTE is in the public interest because it will allow the combined companies to build on their individual and combined strengths. The combined company will be more efficient as a result of reducing overall expenses and by drawing upon the expertise and abilities of the personnel from both companies, adopting the best practices of each to improve the quality and efficiency of service. The petition also states that this greater efficiency will help contain cost pressures across the country thereby freeing resources to invest in new services, to enhance service quality, and to compete more effectively against other alliances which have

recently been formed.

In addition, the applicant states that the merger will accelerate the combined companies' ability to serve the high speed data transmission and internet services market. GTE currently is the nation's fourth largest provider of internet backbone services and intends to expand that capability through construction of a national fiber network. The opportunity to add Bell Atlantic's customer base will increase the volume of data and internet traffic GTE carries, which will accelerate the build-out of its national data network, thereby allowing more facilities-based competition sooner with the other large backbone providers.

DISCUSSION

Our review of the proposed merger focused on the impact the merger may have on telecommunications consumers in New York State, and included a review of comments and reply comments received from interested parties. The comments from interested parties fell into six broad categories: satisfying the public interest standard, harming the development of competition in New York, service quality, impact on the Commission's jurisdiction over Bell Atlantic, negative economic impact, and satisfying the conditions of the Bell Atlantic/NYNEX merger.

Several comments discussed the potential impact on local competition that would result from this merger. Unlike the MCI/WorldCom and AT&T/TCG mergers recently approved by the Commission, the Bell Atlantic/GTE merger involves only one firm having a significant business presence in New York State. Both GTE and Bell Atlantic, however, are extremely large in stature, and a comparison could be drawn to the Bell Atlantic/NYNEX merger which also involved two very large telecommunications firms, only one of which had a business presence in New York State at that time. For that merger, the Commission did consider the then-current level of market

concentration in New York versus the level of market concentration that would ensue if Bell Atlantic were to enter into specific New York State communications markets.

Our review of available material associated with the Bell Atlantic/GTE merger indicates that GTE has no definitive plans for entry into the New York State market, having left it in the past. Thus, a decrease in future market concentration is unlikely to result from this petition. Additionally, there are several current and potential competitors to BA-NY in the local market, including AT&T, MCI/WorldCom, and Sprint. Bell Atlantic notes that there are over 80 CLECs certified to provide service in New York and 45 of them have facilities-based interconnection agreements with BA-NY.

The Consumer Protection Board (CPB) emphasizes in its comments that service quality is an important consideration in this proceeding. Bell Atlantic responds that it must provide high-quality service if it is to maintain its customer base in an increasingly-competitive market. It also notes that BA-NY's recent service quality performance under the Performance Regulatory Plan for New York Telephone Company (PRP) has steadily improved and BA-NY has satisfied the first year of the Customer Trouble Report Rate Gap Closing Plan.

The CPB also asserts that cost savings and revenue enhancements realized by this merger should accrue, in part, to the customers in New York. An analysis of information available from Bell Atlantic and GTE discloses that the companies expect to achieve substantial expense savings and revenue enhancements from the merger. These projected expense savings are to be achieved from corporate overheads (staff consolidation), information systems (elimination of redundancies), long-distance transport (Bell Atlantic traffic on GTE long-distance network), wireless (margin improvement), operational savings (product development), and procurement (purchasing leverage). In addition, in the first three years following the merger, the companies anticipate substantial

annual revenue enhancements coming from value added services (best practices), long-distance and enhanced data. While Bell Atlantic and GTE did not identify what portion of those savings will be effected in New York, it is reasonable to assume that at least some part of them should redound to the benefit of New York consumers.

Based on the information received, the estimated cost savings generated from the merger could be significant, especially during the sixth and seventh years of the PRP. We reserved authority to modify the PRP if unforeseen circumstances have a substantial impact on the company. In the Bell Atlantic/NYNEX merger, we invoked the reserve authority clause to ensure that a substantial portion of those merger savings benefit New York telecommunications consumers. Specifically, among other things, we reserved the right to modify or terminate the PRP if at the fifth year checkpoint the company has not promoted competition, reduced rates below those established in the PRP, or otherwise made savings available (e.g., absorbing competitive cost onsets).

The instant transaction is an unforeseen event that could have a substantial impact on BA-NY. Pursuant to our Order approving the Bell Atlantic/NYNEX merger, the Commission has the authority, at the PRP fifth year checkpoint, to consider whether consumers share in a fair portion of the savings that do, or will, result from the merger, in determining whether or not to terminate the PRP. We also have the authority to impute those savings to offset exogenous costs.

Merger savings that will be considered at the fifth year checkpoint, and in connection with BA-NY requests for exogenous cost recovery, will include savings attributable to the Bell Atlantic/GTE merger as well as the Bell Atlantic/NYNEX merger. BA-NY will be required to identify merger-related savings (overall and those attributable to New York) for those purposes. Further, we will not allow recovery

of cost onsets related to the merger unless they are prudent from a BA-NY perspective and specifically related to the generation of savings attributable to New York. The burden will be on the company to demonstrate that these requirements are satisfied. With these understandings, the Commission finds that the merger is not contrary to the public interest and will be approved.

Finally, we note that the Bell Atlantic/GTE merger is subject to review in several other states and by Federal agencies. We are also aware that those analyses might result in substantial modifications to the original merger agreement or place substantial conditions thereon. Accordingly, our approval of the proposed transaction is granted with the expressed reservation of our authority to review any substantial modifications or conditions to the merger plan by another regulatory body.

CONCLUSION

Based on our review of the petition and the comments thereon, we find that the transaction is in the public interest and will be approved pursuant to Public Service Law Sections 99 and 100 and our authority under the Performance Regulatory Plan for New York Telephone Company, subject to the understandings and reservation contained in this Order.

The Commission orders:

1. Subject to the understandings and reservation contained in this Order, the proposed merger of GTE Corporation into Bell Atlantic Corporation is approved.

2. Bell Atlantic-New York, Inc. (BA-NY) shall specifically identify overall Bell Atlantic/GTE merger-related savings, and those savings attributable to New York, in connection with the fifth year checkpoint of the Performance Regulatory Plan for New York Telephone Company and in connection with BA-NY requests for recovery of exogenous costs

or merger-related cost onsets.

3. The Commission reserves the right to reconsider approval of the merger should another regulatory body make substantial modifications or conditions to the merger plan.

4. Within 60 days of completion of this transaction, petitioners must notify the Acting Secretary of this Commission of its completion.

5. If this transaction is not completed within one year of the date of this Order, the approval granted herein may be revoked.

6. The petitioners must submit a written statement of unconditional acceptance of the terms of this Order signed and acknowledged by a duly authorized officer of New York Telephone, Bell Atlantic and GTE Corporation within 10 days of the issuance of this Order. If such acceptance is not so filed, approval of the merger is revoked. This statement should be filed with the Acting Secretary to the Commission and served on all parties to this proceeding.

7. This proceeding is continued.

By the Commission,

(SIGNED) DEBRA RENNER
Acting Secretary