COMMONWEALTH OF KENTUCKY
OFFICE OF THE ATTORNEY GENERAL

GREGORY D. STUMBO
ATTORNEY GENERAL

CAPITOL BUILDING, SUITE 118
700 CAPITOL AVENUE
FRANKFORT, KY 40601-3449
(502) 696-5300
FAX: (502) 564-2894

August 10, 2006

Via facsimile & messenger mail
Ms. LaJuana Wilcher, Secretary
Environmental & Public Protection Cabinet
EPPC, 5th Floor
500 Mero Street
Frankfort, KY 40601

Major Alecia Webb-Edgington
Kentucky Office of Homeland Security
P.O. Box 1757
Frankfort, KY 40602

In Re: Improved Communication Capabilities for the Kentucky Department of Homeland Security

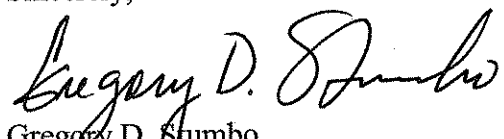
Dear Secretary Wilcher and Major Webb:

Please be advised that the Office of the Attorney General has successfully negotiated for enhanced communication services for the Kentucky Department of Homeland Security. As a condition to the Kentucky Public Service Commission's approval of the merger of AT&T Inc. with BellSouth Corporation, the companies are required to contact the Kentucky Department of Homeland Security after the merger closes in order to familiarize that agency with the company's enhanced capabilities regarding natural disasters and other emergencies.

This specific agreement was reached between the companies and the Attorney General's Office as part of the Attorney General's agreement to the merger. Ultimately it was included in the Commission's Order as a condition at Paragraph 1(i). For your convenience I enclose a copy of the Order for your review which we expect to be final soon.

I am confident that this agreement will provide you with assistance in serving our citizens and protecting them in this volatile post 9/11 world. Please contact me if you have any questions. I thank you for your service to all Kentuckians.

Sincerely,



Gregory D. Stumbo
Attorney General

Enclosure

C: Holland N, Mctyeire, V
Greenbaum Doll & McDonald PLLC

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION FOR APPROVAL OF THE INDIRECT TRANSFER OF CONTROL RELATING TO THE MERGER OF AT&T INC. AND BELLSOUTH CORPORATION	))))	CASE NO. 2006-00136

O R D E R

On March 31, 2006, BellSouth Corporation ("BellSouth") and AT&T, Inc. ("AT&T") (collectively "Joint Applicants") filed their joint application to merge pursuant to KRS 278.020. This proposed transaction is a holding company transaction. According to the Joint Applicants, it will be seamless and transparent to Kentucky customers. There will be no need to amend any tariffs. The application and various witnesses' prefiled testimony assert that the merger will enhance public interest by providing the following benefits to consumers:

1. The united ownership and managerial control of Cingular Wireless, currently a joint venture of AT&T and BellSouth, will allow Cingular to more quickly address its consumers' demands for converged wireless and wire line services.

2. The merger will allow the combined company to deploy facilities-based competitive video services.

3. The combined companies will enhance services to government customers, strengthen national security, and improve response to natural disasters.

4. Consumers will benefit from the integration of BellSouth's local network with the AT&T backbone.

5. Research and development opportunities will be enhanced, including greater access for Kentuckians to the innovations of AT&T laboratories.

6. The merger will result in substantial savings in costs of operations.

The application and prefiled testimony also argue that the merger will not harm competition in Kentucky. Currently, the operating subsidiaries of both companies do not compete in Kentucky and, thus, their merger will not affect competition. Also, BellSouth repeatedly asserts its continuing obligation to serve its wholesale customers through interconnection agreements. BellSouth agrees that it continues to have carrier-of-last-resort obligations. One of the synergies to be gained by the proposed merger, according to the Joint Applicants, is a reduction by 10,000 employees. This reduction will occur through attrition and not through layoffs.

According to the merger agreement, the companies propose that AT&T purchase all of the issued and outstanding shares of BellSouth. AT&T has created a wholly owned subsidiary, ABC Consolidation Corp. ("ABC"), for the purpose of consummating the transaction. ABC will merge with BellSouth, and BellSouth will be the name of the surviving entity. At the time of the merger, shareholders of BellSouth will exchange their BellSouth stock for AT&T stock. Following the merger, BellSouth will become a wholly owned first-tier subsidiary of AT&T.

At the public hearing held on June 7, 2006, the Joint Applicants presented four witnesses. Intervenors NuVox Communications, Inc. ("NuVox") and Xspedius Management Company Switched Services LLC and Xspedius Management Company

of Louisville LLC ("Xspedius") presented a joint witness. Though the Communications Workers of America ("CWA") filed testimony, its witness was excused from appearing since there was no cross-examination. Also, the Attorney General presented no witness but instead signed a joint stipulation of facts with the Joint Applicants. The briefs were filed by June 30, 2006.

The Attorney General contends that AT&T has provided sufficient evidence to meet all required statutory standards for this merger. The Attorney General, however, proposes that the joint stipulation into which he entered should be adopted by the Commission into its final Order.

The Joint Applicants have agreed to certain principles if this acquisition is approved. Basic local rates will be capped for 5 years from the date of BellSouth's election pursuant to 2006 Kentucky Acts Chapter 239 (HB 337). The Joint Applicants will strive to continue BellSouth's historic levels of charitable contributions and community activities and will provide the Commission and the Attorney General's office with data regarding economic development activities and civic and charitable activities. Also, the Joint Applicants agree that the Kentucky operating subsidiaries that are parties to collective bargaining agreements will continue to adhere to their collective bargaining agreements post-acquisition. Moreover, the Joint Applicants agree that the existing interconnection agreements between BellSouth Telecommunications, Inc. and the competitive local exchange carriers will remain in effect after this merger closes. We also note that the Joint Applicants have not objected to providing notice and justification to the Commission prior to closing any technical operations, call centers, or other facilities in Kentucky as suggested by CWA.

The Joint Applicants also acknowledge that each BellSouth Telecommunications, Inc. central office in Kentucky is currently equipped for DSL service and that with the merger of AT&T and BellSouth, the Joint Applicants can consolidate their efforts to more efficiently deploy broadband services to rural areas and other remote areas.

The Commission considered conditions proposed by Intervenors in this proceeding. The CWA has proposed that Joint Applicants maintain the same employment levels in Kentucky for 3 years after the merger closes. Given that a stated benefit of the proposed merger is a reduction of work force through attrition, the Commission finds that imposing this condition would eliminate one of the expected benefits of the merger.

NuVox and Xspedius have proposed 5 additional conditions. They ask this Commission to apply price caps to unbundled network elements, to strengthen the Section 271 performance plan, and to eliminate audits associated with a provision of Enhanced Extended Links. These Intervenors also propose that the Commission require customers of BellSouth Telecommunications, Inc. or AT&T who may have selected BellSouth Telecommunications, Inc. or AT&T because they were not interested in obtaining service from the other company to be provided information to allow a fresh pick of carriers. Finally, these Intervenors propose that the Commission enforce any additional terms or conditions that the Federal Communications Commission may adopt. The Commission has considered these proposed conditions and finds that they should not be implemented at this time. These proposed matters are not sufficiently related to the proposed merger of AT&T and BellSouth to be considered in this proceeding.

Having considered the application and supporting testimony and all filings of the intervenors, the Commission finds that AT&T has the financial, technical and managerial ability to provide reasonable service and, thus, the application should be approved, with certain conditions enumerated below. Moreover, the proposed transfer is being made in accordance with law for a proper purpose and is consistent with the public interest. AT&T and BellSouth have met the statutory requirements of KRS 278.020(5) and (6).

IT IS THEREFORE ORDERED that:

1. The application for the merger of AT&T and BellSouth is approved subject to the following terms and conditions:

a. The Joint Applicants will not engage in any debt financing that requires liens or the pledging of assets by the Joint Applicants' subsidiaries operating in Kentucky.

b. The Joint Applicants will not require any subsidiary or affiliate to guarantee the debt of any other subsidiary, affiliate, or holding company or to grant liens in favor of any lender providing financing to the applicants.

c. Ratepayers will not bear, directly or indirectly, any debt or transactional costs, liabilities, or obligations in order to consummate this merger.

d. The merger will have no effect on the rates, terms, and conditions of services that the applicants' subsidiaries provide in Kentucky.

e. Joint Applicants will maintain state headquarters in Kentucky for their Kentucky operating subsidiaries.

f. Joint Applicants will notify the Commission and the Attorney General of any downgrading of AT&T's debt by Moody's or Standard & Poor's during the first year after the merger closing date.

g. Joint Applicants will continue their existing protocols for resolving complaints received by the Attorney General's office and will continue to assist the Commission in fulfilling its duties.

h. The Joint Applicants' Kentucky operating subsidiaries will adhere to the Commission's applicable service quality standards, including the posting of service performance results and filing of corrective action reports.

i. Joint Applicants will contact the Kentucky Department of Homeland Security after the merger closes and will familiarize that agency with its enhanced capabilities regarding response to natural disasters and other emergencies.

2. The conditions proposed by NuVox and Xspedius are hereby denied without prejudice.

3. The CEOs or other persons authorized to act on behalf of each of the Joint Applicants in this proceeding shall file, within 10 days of the date of this Order, a written acknowledgement agreeing to be bound by each of the conditions contained herein.

Done at Frankfort, Kentucky, this 25th day of July, 2006.

By the Commission

ATTEST:

Executive Director