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AT&T Yields to Seal BellSouth Deal

Broad Concession Package Aims to Win FCC Backing; Big Role of 'Net Neutrality'

By AMY SCHATZ and PETER GRANT
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AT&T Inc. made numerous new consumer-friendly concessions on the terms of its proposed \$85 billion merger with **BellSouth** Corp. in an effort to get approval by the Federal Communications Commission before the end of the year.

In a 19-page letter filed with the agency last night, the phone giant promised to observe numerous "network neutrality" principles so it would treat all Internet content equally. Consumer groups and some Internet companies have been pressing the FCC for weeks to make this a condition of approving the merger.

READ THE LETTER



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See [AT&T's letter](#)² to the FCC regarding the BellSouth deal. (Adobe Acrobat³ required.)

In addition, AT&T agreed to do such things as upgrade the availability of high-speed Internet service in the areas it serves and adhere to price caps on high-volume data lines used by business customers. In a concession to labor unions, the company agreed to repatriate 3,000 jobs outsourced by BellSouth outside the U.S., locating at least 200 of them in the New Orleans area.

"This is a real capitulation by AT&T-BellSouth," said Harold Feld, senior vice president of Media Access Project, a Washington public-interest law firm.

The proposed deal, the largest in U.S. telecommunications-merger history, could be approved by the full commission as early as today. An AT&T spokesman declined to comment.

The deal has some longer-term implications for all phone companies because of the focus by the FCC's Democrats on net neutrality and rates charged to businesses for high-volume data lines. Democrats felt emboldened to take a hard line during negotiations because of their new control of Congress, where Democrats have been riled up about the net-neutrality issue.

AT&T's concessions come after weeks of negotiations with the FCC, which reached an impasse with two Democrats on the five-member commission pushing for additional conditions and the two remaining Republicans opposing them. The fifth commissioner, Robert McDowell, a Republican who many thought would break the tie, decided to abstain because he had previously lobbied on behalf of CompTel, a trade group that represents smaller phone companies.

Mr. McDowell's decision to abstain precipitated an intense round of negotiations, which lasted through the Christmas holiday. The FCC's Democrats insisted that AT&T abide by Internet nondiscrimination rules and essentially came up with a new one as part of this deal. AT&T basically agreed that it wouldn't prioritize Internet traffic once it reached the two dozen or so hubs around the country that process Internet traffic. From that point until it reaches a customer's home, the traffic must be treated equally.

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That condition expires in two years. The combined company will have about 11.5 million high-speed Internet subscribers.

From a financial perspective, a more significant condition involves reinstating FCC price caps dropped after industry deregulation on high-volume data lines used by corporate customers throughout the combined company's 22 state territory. Previously, price caps were required only in areas where the FCC determined that no significant competition existed. Under this deal, the use of price caps for these "special access lines" would expand significantly. The condition is far more extensive than what was required last year when SBC Communications Inc. acquired AT&T Corp, and also stays in place longer, for four years.

The deal would also help consumers and start-up Internet phone companies, like **Vonage Holdings Corp.**, by requiring AT&T to offer stand-alone DSL Internet service for up to \$20 a month. That would give consumers access to basically the slowest broadband Internet access available, 768 kilobits per second. But that is fast enough to use Internet phone services provided by AT&T rivals.

AT&T also agreed to divest itself of wireless spectrum that was intended to be used for wireless broadband services, a condition that competitors like Clearwire Corp. have been advocating. Critics have claimed that AT&T and BellSouth had so much spectrum between them others wouldn't be able to compete.

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