

AT&T Takeover Bid for T-Mobile Faces Rhodes-Scholar Review in California

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[AT&T Inc. \(T\)](#), looking to win approval for its proposed \$39 billion acquisition of T-Mobile, is facing a challenge in California where regulators have raised questions about the deal's effect on consumers and corporate customers.

The state's [Public Utilities Commission](#) has held seven public discussions of the bid, under the oversight of Commissioner [Catherine Sandoval](#). She's delving into how a merger would affect rural communities, corporations and the evolution of wireless technologies. Through her scrutiny, the 50-year-old antitrust law professor and Rhodes Scholar may help determine whether AT&T's bid succeeds or fails.

"This is pretty unheard of," [Brian O'Hara](#), a legislative director at the [National Association of Regulatory Utility Commissioners](#), said in an interview. "[California](#)'s seems to be the most in-depth review. It's amazing to me that the PUC is doing so much."

State regulators can be something of an afterthought in big acquisitions. Federal authorities tend to be the primary focus, and AT&T's is working in [Washington](#) to win approval from the Justice Department and the Federal Communications Commission.

Still, some states, led by California, are scrutinizing AT&T's proposal, which would allow it to surpass [Verizon Wireless](#) as the biggest U.S. wireless carrier. The commission's decision to start a formal [investigation](#) of the merger is an unusual step in a deal with one wireless company buying another. State officials historically paid closer attention to land-line phone service and, for decades, regulated such rates.

Watchdog's Letter

The public-interest group [Consumer Watchdog](#) has recommended rejecting the deal, saying it will lead to higher prices.

"Once known for its low prices, T-Mobile has already begun increasing its rates and decreasing options in anticipation of the merger," Consumer Watchdog said in a letter to regulators, including Sandoval, U.S. Attorney General Eric Holder and FCC Chairman [Julius Genachowski](#).

AT&T spokesman Michael Balmoris said the letter is "riddled with distortions and factual inaccuracies."

Sandoval's review may come at a high cost for AT&T. If the commission decides the deal would hurt consumers, California could force AT&T to divest wireless assets in certain regions or guarantee service coverage and cheaper service for the poor, said Courtney Munroe, a group vice president at IDC.

High Threshold

With the pressure from California and other regulators, AT&T may have to divest 30 percent to 40 percent of [T-Mobile USA](#)'s spectrum and subscribers nationwide, Michael Nelson, an analyst with Mizuho Securities USA, said in an interview.

"I expect the requirements to be extremely high," he said.

California could even seek to block the deal outright, a step usually taken by the FCC or [Justice Department](#). If federal regulators approve the deal and California objects, the commission could go to the state's attorney general to file a lawsuit to stop it, said Naruc's O'Hara.

"An attorney general lawsuit may be the only recourse," he said.

AT&T said that states, including California, don't have the legal standing to force wireless divestitures since such licenses are issued by the federal government.

"Federal law makes clear the FCC, not state commissions, has authority over spectrum licenses," General Counsel Wayne Watts said in an e-mail.

AT&T Optimistic

The company, in any case, said it is confident California will approve the deal.

"We are optimistic that the CPUC will find that the merger is in the public interest and issue its recommendation with no conditions," said Lane Kasselmann, an AT&T spokesman.

[Sprint Nextel Corp. \(S\)](#), which has publicly opposed AT&T's deal, disputed that conclusion.

"We are confident that in California and at the FCC, after thorough reviews, AT&T's proposal will be rejected," said [John Taylor](#), a spokesman for the [Overland Park](#), Kansas-based company.

The California commission is planning to deliver a proposed decision in September, according to the [schedule on its website](#). The five commissioners are scheduled to vote on the matter in early October. Sandoval declined to comment for this story.

Sandoval graduated from [Yale University](#) and went to Oxford University on a Rhodes scholarship, according to [her biography](#) on the CPUC's website. She earned her law degree from [Stanford University](#).

FCC Experience

Though she joined the California commission in January, she has years of experience in communications. She worked for former FCC Chairman Reed Hundt as director of the [Office of Communications Business Opportunities](#), advising the commissioners on issues affecting small, women- and minority- owned businesses. She held the post from 1994 to 1999.

She also worked as an antitrust law and communications law professor at [Santa Clara University](#) before Gov. [Jerry Brown](#) appointed her to the public utilities commission this year. She's now on sabbatical from the school.

"She is brilliant," said Allen Hammond IV, who is director of the Broadband Institute of California and also teaches at [Santa Clara](#). "She works extremely hard at everything she does."

Though Sandoval hasn't said how she will vote on AT&T's proposal and is just one of five commissioners, she's taken the lead in public hearings and has prodded deep into the details of how a merger will affect different customers in the state. She's asked about rural customers, who tend to have fewer choices than those in urban centers, and Fortune 500 companies, which often buy only from wireless carriers with national coverage.

'What Are the Options?'

During one hearing last month, Sandoval questioned whether [MetroPCS Communications Inc. \(PCS\)](#), U. S. Cellular Corp. and [Leap Wireless International Inc. \(LEAP\)](#), which offers service under the Cricket brand, can be considered alternatives to T-Mobile if the company disappears through an AT&T acquisition.

"My understanding is MetroPCS and Cricket, as well as U.S. Cellular, do not have facilities in all of the California markets, and in fact have really concentrated on [Los Angeles](#) and the Bay Area," she said. "So when you get outside of those markets, what are the options for consumers?"

Sandoval has also picked apart the effect on wireless roaming prices and on so-called backhaul, or the business of connecting fiber lines to cellular towers in order to connect wireless calls to other phone lines. Sprint has said AT&T and Verizon may end up with such dominance of the backhaul market that they could raise costs for wireless rivals.

Where's the Data?

During one discussion last month, Parley Casto, an AT&T representative at the hearing, said he didn't have specific figures to answer a backhaul question and gave his own estimate.

"I appreciate your perception," Sandoval replied, according to [the transcript](#). "We'll be asking for data."

State regulators do have the authority in merger reviews to impose conditions within their own territory, as California has shown in the past. In 2005, the state's commission [required](#) SBC Communications Inc. and [Verizon Communications Inc. \(VZ\)](#), to win approval to acquire AT&T

7/22 Reading

and MCI respectively, to stop forcing customers to maintain a traditional phone when they signed up for Digital Subscriber Lines, or DSL, [Internet service](#).

California has extra clout in such reviews because it is the most populous state in the country. Eleven state attorneys general are already investigating the merger, while 11 others have urged federal regulators to approve it. The merger also faces opposition from a number of members of Congress, and is being supported by other lawmakers.

As Sandoval opened one public hearing into AT&T's proposed acquisition, she waved her hands at her side like a Hula dancer.

"If you see me doing the Hawaiian dance, it means slow down, ride the wave," said Sandoval, explaining she wanted court reporters to transcribe the discussion clearly so the public could read every word.

Sandoval and her fellow commissioners may end up slowing down AT&T too, said [Jonathan Kramer](#), a telecom attorney based in Los Angeles.

"The commission is concerned about an anti-competitive outcome, and what it can mean for California consumers," said Kramer. "The deal will be subject to stiff conditions."

To contact the reporter on this story: Olga Kharif in Portland, Oregon, at okharif@bloomberg.net

To contact the editor responsible for this story: Peter Elstrom at pelstrom@bloomberg.net