As technologies converge, AT&T keeps a wary eye on Google

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AT&T Inc. has many strong rivals in the great convergence of wireless, Internet and video technologies, but none looms larger - potentially - than search giant Google Inc.

That's the impression from a close reading of a recent regulatory filing supporting Dallas-based AT&T's acquisition of California-based DirecTV.

Again and again over nearly 350 pages of executive declarations and transaction summaries, attention focuses on the potential competitive threat of Google.

Google Fiber is "the most ambitious and potentially disruptive" broadband provider, the filing states.

AT&T and Google are racing to provide ultra-high speed fiber connections to homes in selected areas of the country. Speed is important as the tech convergence makes video, in all of its forms, available anytime, anywhere, on any device.

In her declaration, AT&T senior executive vice president Lori Lee said Google's deployment of fiber in Kansas City has been "very successful." She said AT&T has lost customers in Google areas since the search company launched its service there last year.

That's telling because the filing states elsewhere that, since 2011, "cable operators combined lost share" to AT&T's bundled U-verse Internet and television services in areas where U-verse video is available.

U-verse is the fastest growing part of AT&T's business.

Details of AT&T's specific loss in Kansas City were among more than 280 redactions of "highly confidential information" in the public filing, available on the Federal Communications Commission's website.

The filing also cites experts who predict that Google could capture at least half of the households in its Kansas City "fiberhoods" in three to four years. And it points out that 24 of the 34 cities that Google has targeted for expansion are within AT&T's "U-verse footprint."

Another section refers to the potential size of Google Fiber's national network. While the specific numbers from a third-party researcher are redacted in the filing, they are readily available in online media coverage of the report.

Google could profitably build a network passing 20 or 30 million U.S. homes and business in the next several years, the report said.

AT&T has said that it plans to launch its super-fast U-verse with GigaPower service in Dallas this summer.

On May 18, AT&T and DirecTV announced their deal, valued at $67 billion including debt. On June 11, late in the workday, the companies made their filing to the FCC and then sent an executive summary to reporters, who had little time on deadline to review the complete submission.

The full filing largely re-iterates many of the points made by AT&T CEO Randall Stephenson and other executives at the time of the announcement: The deal is pro-consumer and will redefine the video entertainment industry, in part by making bundled packages of Internet and video services available to more customers at home and on the move.

Though far from great literature, a full reading of the filing does bring to mind the opening lines of "A Tale of Two Cities," the classic novel by English writer Charles Dickens:

"It was the best of times, it was the worst of times" ... even now for two companies with combined annual revenue of about $170 billion.

While saying theirs is a marriage of two leaders of their respective industries, telecom and satellite TV, AT&T and DirecTV continually stress that the intense business challenges of today necessitate their merger.

The filing goes into detail about what AT&T calls a lack of scale in its U-verse video offering, which currently has about 5.7 million subscribers. The service "is uneconomic and not fully competitive with cable providers," the filing states.

Content costs, which are steadily rising and "consume 60 percent of AT&T's subscriber video revenues," are largely the culprit.

With the added scale of 20 million or so DirecTV subscribers, AT&T expects to reduce its per-subscriber content costs significantly.

How much?

By 20 percent for AT&T's stand-alone video business. Other specifics are redacted.

Stephenson has said the regulatory review process will take about a year and he is confident the deal will be approved.