

Decision 89 07 071 JUL 28 1989

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

|                                       |                        |
|---------------------------------------|------------------------|
| In the Matter of the Application of ) |                        |
| ITT Communications Services, Inc. )   |                        |
| (U-5041-C) and Metromedia Long )      | Application 89-03-048  |
| Distance, Inc. for Approval to )      | (Filed March 30, 1989) |
| Transfer Control. )                   |                        |
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OPINION

This is an application in which Metromedia Long Distance, Inc. (Metromedia) seeks authority to acquire control of ITT Communications Services, Inc. (ITTCSI).

Notice of the filing of the application appeared in the Commission's Daily Calendar on April 4, 1989. There are no protests.

Metromedia is a Delaware Corporation. On June 27, 1989 it submitted a certificate from the Secretary of State indicating it was qualified to do business in California. The certificate is designated Exhibit 1. The application did not have financial information about the proposed transaction and contained a motion seeking a waiver of Rule 35(d) which requires such information. The motion had been pending. On July 11, 1989 applicants submitted a document containing the information required by Rule 35(d). The document has been designated as Exhibit 2. The matter is now ready for decision.

The Commission makes the following findings and conclusion.

Findings of Fact

1. A public hearing is not necessary in this matter.
2. ITTCSI is a Delaware Corporation qualified to do business in California. It holds authority from the Commission to provide interLATA telephone service in California (U-5041-C). ITTCSI provides MTS and WATS-like interLATA telephone services, and

private-line point-to-point interLATA service, both within the State of California and throughout most of the United States. ITTCSI was formerly known as United States Transmission Systems, Inc. and is a wholly owned subsidiary of ITT Corporation. ITTCSI was originally certificated to provide service in California in Decision (D.) 84-05-008, dated May 4, 1984. The Commission in D.88-05-042, dated May 16, 1988, authorized ITTCSI to acquire control of American Network, Inc. (Amnet) and Amnet's subsidiaries Starnet International, Inc. and ATE, Inc. That decision also authorized ITTCSI to merge the acquired entities into a single entity, ITTCSI, which now provides service within California through a single tariff.

ITTCSI operates switching centers at San Francisco, Los Angeles, and San Diego. It maintains private line terminals at San Francisco and Los Angeles, and utilizes transmission facilities obtained from various carrier and non-carrier vendors of such facilities to interconnect its switching centers and private line terminals with one another, with other parts of ITTCSI's national network, and with local points of presence throughout California where ITTCSI's network interfaces with access services provided by local exchange carriers in California.

3. Metromedia is a Delaware Corporation which is qualified to do business in California. It is a subsidiary of Metromedia Company which provides through subsidiaries interstate interexchange service on a regionalized basis with its services being predominantly available to customers in the states of Florida, Maryland, New York, New Jersey, Pennsylvania, Texas, Virginia, and the District of Columbia. Metromedia, is a Florida corporation and wholly owned subsidiary of Metromedia Company. It received authority to provide interLATA intrastate service in California in D.86-06-050, dated June 25, 1986. Metromedia was assigned the CIS number U-5114-C. On July 28, 1986, the then parent of Metromedia, Metromedia, Inc., filed Application

(A.) 86-07-053 seeking Commission authority to transfer control of Metromedia, and other subsidiaries of Metromedia, Inc., to Metromedia Company the present parent of Metromedia. That application was granted in D.86-10-009. Metromedia adopted the provisions of its FCC tariff in October of 1986, but to its knowledge it has never provided long distance service in California.

4. On March 9, 1989, the parties entered into an agreement under which Metromedia agreed to purchase all of the outstanding shares of ITTCSI for \$125,000,000, subject to adjustment to the date the transaction is consummated.

The agreement provides that purchase price will be paid by (a) a cash payment of \$25 million at closing, (b) delivery at closing of Metromedia's non-negotiable promissory note for one-half of the balance payable three years after closing, and (c) delivery at closing of Metromedia's non-negotiable promissory note for the remaining amount payable four years after closing. Each note will bear interest payable quarterly at an annual rate of one percentage point below the Manufacturer's Hanover prime rate from time to time. The principal amount of the notes will initially be based upon a mutually agreed-upon estimate of the purchase price and will be appropriately adjusted after final determination of the purchase price.

5. The parties anticipate that the acquisition of ITTCSI by Metromedia will achieve substantial cost savings as a result of steps which will be taken to integrate their now-separate operations into a common network. These steps will include the more efficient utilization of transmission facilities, elimination of higher-cost services and facilities obtained from other vendors, and a general repositioning of resources so as to best serve all of their respective customers at the lowest cost consistent with the provision of high quality service. The parties expect California customers to benefit from the consolidation through efficiencies

achieved by the integration of facilities and overall network improvements. For the present and foreseeable future Metromedia intends to continue providing service pursuant to ITTCSI's tariffs on file with the Commission. As part of the agreement, Metromedia has obtained the right to continue providing service under an ITT name for up to three years. Metromedia intends to exercise that right for a sufficient period to assure that ITTCSI customers are fully satisfied with the services of the combined entity and that no customer dislocations occur as a result of that combination.

6. As of December 31, 1988, Metromedia had fixed assets of \$21,084,442 and total assets of \$61,913,640. For the year ending December 31, 1988, Metromedia had operating revenues of \$122,333,861 and a net profit of \$7,626,340.

7. Metromedia has the ability, including financial ability, to acquire control of ITTCSI and continue its operations.

8. The proposed acquisition on control of ITTCSI by Metromedia is not adverse to the public interest.

9. Metromedia and ITTCSI are telephone corporations which are nondominant telecommunications carriers with respect to the matters presented in this application.

10. Ordering Paragraph 1 of D.85-01-002 in A.84-03-92 dated January 3, 1985, provides that:

"1. On and after the effective date of this order, public utility resellers of telecommunications services are exempted from the requirements of PU Code §§ 816-830."

11. Ordering Paragraph 7 of D.87-04-017 dated April 8, 1987, relating to telecommunications carriers, provides in part that:

"...in noncontroversial applications for authority to transfer assets or control under PU Code §§ 851-855, such authority may be granted by the Commission's Executive Director as specified in D.86-08-057."

12. Since the ensuring order primarily affects the parties to this application, it should be made effective on the date of issuance.

Conclusion of Law

The application should be granted.

This authorization is not a finding of the value of the rights and properties over which control is to be acquired.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Metromedia Long Distance, Inc. (Metromedia), may acquire control of ITT Communications Services, Inc. (ITTCSI) in accordance with the terms set forth in the application.

2. Within 10 days after acquisition of control, Metromedia shall write the Commission stating the date of the transfer of control. A copy of the documents effectuating the transfer of control shall be attached.

3. Upon consummation of the acquisition of control, ITTCSI's Identification Number U-5041-C is revoked. Metromedia shall continue to use Identification Number U-5114-C in the caption of all original filings with the Commission, and in the titles of other pleadings filed in existing cases.

4. The authority granted in Ordering Paragraph 1 shall expire unless it is exercised before August 31, 1990.

This order is effective today.

Dated JUL 28 1989, at San Francisco, California.

Victor Weissner/WF  
VICTOR WEISSNER  
Executive Director

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

Victor Weissner  
Victor Weissner, Executive Director  
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