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Decision 92-11-004 November 6, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In Re joint application of Randolph Cellular Corporation, dba North Coast Cellular (U-3031-C), a Virginia Corporation, and Telephone and Data Systems, Inc., an Iowa Corporation and California Rural Service Area #1, Inc., a California Corporation, for authority to merge Randolph Cellular Corporation into Telephone and Data Systems, Inc. and to transfer certain utility assets and operating authority and control from Telephone and Data Systems, Inc. to California Rural Service Area #1, Inc. pursuant to Public Utilities Code Sections 851 and 854.

ORIGINAL

Application 92-07-024  
(Filed July 15, 1992)

O P I N I O N

By this application Randolph Cellular Corporation (Randolph Cellular), Telephone and Data Systems, Inc. (TDS), and California Rural Service Area #1, Inc. (CRSA 1) seek authority to merge Randolph Cellular with TDS and to transfer certain utility assets and operating authority and control from TDS to CRSA 1.

Notice of this application appeared in the Commission's Daily Calendar of July 17, 1992. No protests to the application were received; therefore, a public hearing is not necessary.

Randolph Cellular is a certificated cellular utility which provides facilities-based cellular service in Humboldt, De Norte, Siskiyou, and Trinity Counties. Randolph Cellular had approximately \$3.5 million of assets and \$1.4 million of negative stockholders' equity at May 31, 1992.

TDS, an Iowa corporation, is a publicly held utility holding company with approximately \$1.5 billion of assets and \$1.0 billion in stockholders' equity at March 31, 1992. TDS owns and operates cellular telephone companies in several states,

including California RSA #9 (U-3042-C). California RSA #9 provides facilities-based cellular service in Mendocino and Lake Counties.

CRSA 1, a newly formed California corporation, was established to provide cellular service in California RSA 1 and is wholly owned by United States Cellular Corporation (USCC). USCC, in turn, is a majority owned subsidiary of TDS. Until the transaction proposed herein is approved and consummated, CRSA 1 will have no meaningful balance sheet or income statement. Accordingly, no financial statements are available.

Applicants propose a two-step transaction. First, Randolph Cellular will merge with TDS. Immediately upon consummation of that merger, TDS will transfer Randolph Cellular's operating authority and utility assets to TDS's second-tier majority owned subsidiary CRSA 1.

Applicants entered into an option agreement whereby Randolph Cellular could be merged into TDS, with consideration consisting of an aggregate of 40,000 common shares of TDS and \$25,000 cash, subject to the approval of the Federal Communications Commission and the California Public Utilities Commission.

Upon exercise of the option agreement, the consummation of the merger is intended to take place on January 4, 1993. All common stock of Randolph Cellular will be converted into rights to receive, in the aggregate 358,400 TDS common shares, 140,173 USCC common share, and a sum cash to be determined at the date of merger based on an agreed upon formula.<sup>1</sup>

Applicants represent that the proposed merger is in the public interest because the provision of cellular service in California RSA 1 continues to require substantial infusion of new

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<sup>1</sup> The sales price at the time the transaction was entered into, was between \$12 and \$13 million, or approximately \$70 per point of presence (POP).

capital to meet ongoing obligations as well as expenses associated with system expansion and improvement. Randolph Cellular, an entity comprised of eight individual investors, does not have ready access to substantial internal sources of funding. However, CRSA 1, as a second-tier majority owned subsidiary of TDS, is well positioned to meet the financial obligations of CRSA 1. Further, in that TDS owns and operates California RSA 9, the cellular market immediately adjacent to CRSA 1, TDS will enjoy economies of scale from the proposed common ownership of two markets.

CRSA 1 intends to continue, without interruption, the operation of cellular service to subscribers at the same rates, terms, and conditions currently set forth in Randolph Cellular's tariffs filed with the Commission. The cellular system being transferred would continue to be managed by the personnel currently working for Randolph Cellular.

This application involves only a proposed change in ownership and operation of existing duly licensed facilities. No new construction is being proposed. Accordingly, there is no possibility that the transaction contemplated herein may have any significant impact on the environment.

Findings of Fact

1. Randolph Cellular proposes to merge with TDS, and TDS, in turn, proposes to immediately transfer Randolph Cellular's operating authority and utility assets to CRSA 1.
2. No protests to the application have been filed.
3. It can be seen with certainty that the proposed transfer will not have an adverse impact on the environment.
4. Public convenience and necessity require the granting of this application, to be effective on the date signed.
5. Operations of the system will be managed by the personnel currently working for Randolph Cellular.

6. CRSA 1 intends to continue the operation of the cellular service to subscribers at the same rates, terms, and conditions currently set forth in Randolph Cellular's tariffs.

7. Randolph Cellular had approximately \$1.4 million of negative stockholders equity at May 3, 1992.

8. TDS had approximately \$1.5 billion of assets and \$1.0 billion of stockholders equity at March 31, 1992.

Conclusions of Law

1. The application for merger and transfer of control should be granted.

2. Because of the public interest in cellular service, the following order should be effective immediately.

The State may grant any number of operative rights and cancel or modify the monopoly feature of those rights at any time.

O R D E R

IT IS ORDERED that:

1. Randolph Cellular Corporation (Randolph Cellular) is authorized to merge into Telephone and Data Systems, Inc. (TDS), and, in turn, TDS is authorized to transfer the operating authority and utility assets of Randolph Cellular to California Rural Service Area #1, Inc. (CRSA 1), in accordance with the terms of the application.

2. The authority granted in Ordering Paragraph 1 is conditioned upon CRSA 1 filing with the Commission Advisory and Compliance Division (CACD) Director written notice that it possesses the requisite Federal Communications Commission authority discussed in this opinion.

3. Within 10 days after the completion of the transfer, Randolph Cellular shall notify the CACD Director, in writing, of the date of the merger. A true copy of the instruments of transfer shall be attached to the notification.

4. CRSA 1 shall keep its books as directed by the Uniform System of Accounts for cellular communications licenses as prescribed by Decision (D.) 86-01-043 and as being revised in Investigation 88-11-040.

5. Within 60 days after the merger, CRSA 1 shall prepare and issue to each employee who, in the course of employment, enters a customers or subscribers premise, an identification card in a distinctive format having a photograph of the employee. CRSA 1 shall require each employee to present the identification card when requesting entry into any building or structure of a customer or subscriber, pursuant to Public Utilities (PU) Code § 708.

6. CRSA 1 shall be subject to the following fees:

- a. The user fee provided in PU Code §§ 431-435, which is 0.1% of gross intrastate revenue for the 1992-93 fiscal year (Resolution M-4760).
- b. The current 0.3% surcharge on gross intrastate revenues to fund Telecommunications Devices for the Deaf (PU Code § 2881; Resolution R-13061).

7. Randolph Cellular shall file with the CACD Director within 90 days after the actual merger of its cellular system authorized by this order an annual report on its operation of the cellular system from the first day of the current year through date of transfer.

8. CRSA 1 shall not provide any public utility service authorized by this order until CRSA 1 has filed with the CACD Director tariffs which incorporate all of Randolph Cellular's currently filed tariffs rates, terms, and conditions, and until Randolph Cellular has withdrawn its tariffs duly filed with the Commission.

9. Upon compliance with all of the conditions of this order, including the payment of all fees due under PU Code § 431-433 to the date of transfer, Randolph Cellular shall stand relieved of its

public utility obligations for the merged cellular system, and its corporate Identification No. U-3031-C shall be cancelled.

10. The corporate identification number assigned to California Rural Service Area #1, Inc. is U-3043-C which should be included in the caption of all original filings with this Commission, and in the titles of other pleadings filed in existing cases.

11. The authority granted in Ordering Paragraph 1 will expire if not exercised within 12 months after the effective date of this order.

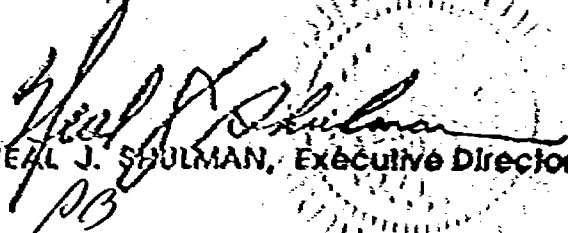
12. Application 92-07-024 is closed.

This order is effective today.

Dated November 6, 1992, at San Francisco, California.

DANIEL Wm. FESSLER  
President  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
Commissioners

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

  
NEAL J. SHULMAN, Executive Director