

ALJ/SAW/gab

Mailed  
SEP 8 1995

Decision 95-09-035 September 7, 1995

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint )  
Application of GTE Corporation and )  
Contel Corporation. )

**ORIGINAL**  
Application 90-09-043  
(September 14, 1990)

(See Decision 94-04-083 Appendix A for appearances.)

**OPINION ON APPLICANT'S PETITION  
TO MODIFY DECISION 91-03-022**

In Decision (D.) 91-03-022, the Commission authorized the GTE Corporation (GTE) to acquire the regulated telecommunications subsidiaries of Contel Corporation (Contel) as part of a nationwide merger, but postponed a determination as to whether or not the California-regulated subsidiaries of the two companies would be allowed to consolidate their operations. In D.94-04-083, as modified in D.94-08-032, the Commission approved the consolidation and determined that, pursuant to California Public Utilities Code Section 854(b)(1), \$139,000,000 in net merger benefits must be passed through to California ratepayers. However, the applicants were permitted to stay the effectiveness of that decision by submitting additional evidence to support their contention that the pass-through to customers should be limited to \$69,000,000. The applicants elected to present such additional evidence, and a stay of D.94-04-083 continues in effect. The assigned administrative law judge has set a briefing schedule, calling for closing briefs no later than September 9, 1995.

In a petition to modify D.91-03-022 filed on June 7, 1995, the applicants seek permission to change the rules affecting the relationship between the officers and directors of Contel and those of its cellular subsidiary. Contel's California cellular business is undertaken by Contel Cellular of California, Inc., which is a subsidiary of Contel Cellular Inc. The latter is a subsidiary of the nationally merged GTE/Contel organization, which is also the umbrella corporation for GTE's California cellular operations (GTE Mobilnet). The Commission approved the national merger in D.91-03-022, while trying to preserve the separate status of all regulated California operations, including the cellular businesses. To ensure this separation, the Commission required Contel to maintain an independent board of directors and independent officers for Contel Cellular, Inc.

In their petition, the applicants ask to remove the requirement for independent leadership for Contel Cellular, Inc., and instead focus on the leadership of Contel Cellular of California, Inc. They argue that the need to maintain the independence of Contel Cellular, Inc. was driven initially by the fact that it was then a publicly held corporation. According to the applicants, that entity is now an indirect, wholly owned subsidiary of GTE.

The applicants intend to maintain separate corporate identities for GTE Mobilnet and Contel Cellular of California, Inc. However, GTE is currently reorganizing its management reporting lines so that reporting responsibilities will be structured on the basis of geographic grouping, rather than on the basis of corporate ownership. The management organization that would oversee all cellular operations is called GTE Personal

Communications Services. Under these circumstance, the applicants argue that it would be more appropriate and efficient to require independent leadership for Contel Cellular of California, Inc. than it would be to continue the requirement that its parent organization (Contel Cellular, Inc.) maintain a separate corporate structure and senior management.

The Division of Ratepayer Advocates (DRA) responded to the petition by arguing that fairness and equity require that the Commission first secure the interests of ratepayers (by ensuring the pass-through of merger net benefits) before doing anything to benefit GTE's shareholders. However, DRA has offered no comments about the merits of the proposal. No protests were filed.

We will grant the applicants' petition because it appears designed to maintain an independent corporate status for Contel's cellular operations in California. Although we share DRA's desire to resolve the ratepayer benefits issue as soon as possible, we see no reason to stand in the way of internal reorganization that is related to the approval that the Commission granted in an earlier decision.

#### O R D E R

Therefore, IT IS ORDERED that Paragraph 3(M) of Appendix C to Decision 91-03-022 is modified to read as follows:

- "M. Exclusively as pertaining to Contel Cellular of California, Inc., maintenance of the status quo will consist of, but not necessarily be limited to, the following:

- "1. Maintaining Contel Cellular of California, Inc. separate and independent from GTE Mobilnet and any other cellular operations owned or managed by GTE prior to the interim authorization, and maintaining the existing organization and structure of Contel's cellular operations in California.
- "2. Maintaining a chief executive officer (CEO) and chief financial officer (CFO) of Contel Cellular of California, Inc. who are not otherwise officers, directors or employees of GTE or any of its subsidiaries or affiliates other than Contel Cellular, Inc.
- "3. Maintaining as members of the board of directors of Contel Cellular of California, Inc. at least three individuals who are not otherwise officers, directors or employees of GTE or any of its subsidiaries or affiliates other than Contel Cellular Inc.
- "4. Assuring that any policy affecting Contel's California cellular operations is approved by either the CEO or the CFO of Contel Cellular of California, Inc., who may consider only the best long-term, unilateral interests of the Contel California cellular companies as well as any potential adverse effect on competition in approving or disapproving any policy.

- "5. Assuring that any services provided to Contel Cellular of California, Inc. for the benefit of any Contel California cellular company by any subsidiary or affiliate of GTE are provided under a separate written contract that describes the services to be provided."

This order is effective today.

Dated September 7, 1995, at Los Angeles, California.

DANIEL Wm. FESSLER  
President  
P. GREGORY CONLON  
JESSIE J. KNIGHT, JR.  
HENRY M. DUQUE  
Commissioners

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

*Wesley Franklin*  
Acting Executive Director