

Decision 99-06-099 June 30, 1999

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In re Application of Global Crossing Ltd. and Frontier Corporation for Approval to transfer control of Frontier Corporation's California Operating Subsidiaries to Global Crossing Ltd.

Application 99-04-034
(Filed April 20, 1999)

O P I N I O N

1. Summary

Global Crossing Ltd. (Global Crossing), which is building and operating fiber optic networks for overseas data, voice, video and Internet transmissions, and Frontier Corporation (Frontier), which offers telecommunications services, seek approval under Section 854 of the Public Utilities Code of a transfer of control of Frontier's California operating subsidiaries to Global Crossing. The Frontier subsidiaries would continue to operate and would become indirect subsidiaries of Global Crossing. The application is unopposed. The application is granted.

2. Description of Applicants

Global Crossing is a Bermuda corporation with holding company headquarters in Beverly Hills. It is majority owned and controlled by U.S. nationals, and its stock trades on the NASDAQ exchange under the symbol GBLX.

The company is building and operating a fiber optic network for data, voice, video and Internet transmissions. The first segment of that network, the Atlantic Crossing submarine cable system, is now linking the U.S., the United Kingdom, the Netherlands and Germany. A Pan-European Crossing, now under

construction, will extend connectivity to 24 European cities, and a Pacific Crossing cable system will link the U.S. and Japan. Global Crossing states that, when completed, its network will span four continents and connect approximately 100 of the world's leading cities.

Frontier is a New York corporation with headquarters in Rochester, N.Y. It is traded on the New York Stock Exchange under the symbol FRO. Through various operating subsidiaries, Frontier is authorized to offer intrastate interexchange and interstate services in 50 states and the District of Columbia. Frontier subsidiaries are also qualified as competitive local exchange carriers in 29 states, including California.

This application seeks authority to transfer control of the following Frontier subsidiaries: Frontier Telemanagement, Inc. (Frontier Communications of the Great Lakes, Inc.), a competitive local carrier reseller; Frontier Local Services Inc., a facilities-based competitive local carrier; Allnet Communications Services (Frontier Communications Services), a nondominant interexchange carrier; Frontier Communications of the West (West Coast Telecommunications), a nondominant interexchange carrier; Frontier Communications International (RCI Long Distance, Inc.), a nondominant interexchange carrier; and Budget Call Long Distance, Inc., a nondominant interexchange carrier.

3. Nature of Application

On March 16, 1999, Global Crossing and Frontier entered into a merger agreement in which Global Crossing would acquire control of Frontier and, indirectly, its communications operating subsidiaries. Frontier would be merged into an acquisition subsidiary and, as the surviving corporation, would become a wholly owned subsidiary of Global Crossing. Alternatively, if the parties choose, Global Crossing and Frontier would become sister companies under a newly created Delaware holding corporation. In either case, Frontier's California

subsidiaries will retain the same corporate relationships with Frontier as they have prior to the merger, and will therefore become indirect subsidiaries of Global Crossing or the newly created holding corporation.

Applicants state that the merger will allow Global Crossing to tie its international facilities to Frontier's domestic network. Through Frontier, Global Crossing would participate for the first time in the retail carrier and enhanced services markets. Applicants state that Frontier will take advantage of Global Crossing's international facilities to expand its service offerings in the U.S., particularly in international long distance and Internet services.

Applicants state that Global Crossing has the technical, managerial and financial qualifications to acquire control of Frontier. Global Crossing's balance sheet shows assets of more than a billion dollars, including more than \$800 million in unrestricted cash and cash equivalents. In 1998, Global Crossing had revenues of approximately \$424 million. Together, Frontier and Global Crossing had 1998 annual sales in excess of \$3 billion and 1998 earnings before taxes of more than \$1 billion.

4. Public Interest

Applicants state that the proposed merger will serve the public interest by promoting competition in the telecommunications industry. They state that the merger will position the merged firm to compete across the board with the largest domestic and global carriers. Applicants state that the combined company will offer California customers global connectivity and an integrated package of services on a one-stop basis, thereby expanding customer choice in the local services market.

Applicants state that they do not expect to make any significant reductions in either company's employee base as a result of the merger, and Frontier technical, managerial and operating personnel will continue to operate the

domestic services. Applicants state that the transfer of control will not disrupt service or cause confusion to customers of Frontier, and that the change will be virtually seamless to retail customers in terms of the services they receive.

Applicants in their application have attached copies of, or citations to, their financial statements, and they have attached a copy of their agreement and plan of merger.

5. Discussion

Pub. Util. Code § 854 requires Commission authorization before a utility may "merge, acquire, or control...any public utility organized and doing business in this state..." The purpose of this and related sections is to enable the Commission, before any transfer of public utility property is consummated, to review the situation and to take such action, as a condition of the transfer, as the public interest may require. (San Jose Water Co. (1916) 10 CRC 56.)

The proposed merger here promises improved products and services for California consumers. No changes in the names or existing services of the California carriers are proposed. Global Crossing has the technical, managerial and financial qualifications necessary to continue operating the Frontier companies.

There have been no protests to this application, and the contemplated transfer of control appears to be noncontroversial. Applicants request expedited approval of the application by the Executive Director pursuant to authority delegated to him by the Commission to grant "noncontroversial applications for authority to transfer assets or control under [Pub. Util.] Code §§ 851-855..." (In re CAWC, Inc., Decision 87-04-017, 24 CPUC2d 98.)

In Resolution ALJ 176-3015, dated May 13, 1999, the Commission preliminarily categorized this proceeding as ratesetting, and preliminarily determined that hearings were not necessary. Based on the record, we conclude

that a public hearing is not necessary, nor is it necessary to alter the preliminary determination in ALJ 176-3015.

The application is granted, subject to the terms and conditions set forth below.

6. Comments on Draft Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. Notice of this application appeared in the Commission's Daily Calendar of April 30, 1999.
2. Global Crossing and Frontier seek authority pursuant to Pub. Util. Code § 854 of a merger through which Global Crossing will acquire control of Frontier and its California operating companies.
3. Global Crossing is building and operating a fiber optic network for data, voice, video and Internet transmissions that, when completed, will span four continents and connect approximately 100 of the world's leading cities.
4. Frontier subsidiaries in California are authorized to provide service as nondominant interexchange carriers and competitive local carriers.
5. There will be no change in the names or current services provided by the Frontier subsidiaries as a result of the transfer of control.

Conclusions of Law

1. The proposed transfer of control is not adverse to the public interest.
2. This proceeding is designated a ratesetting proceeding; no protests have been received; no hearing is necessary.
3. The application is noncontroversial and may be granted by the Executive Director pursuant to authority delegated by the Commission.

4. The application should be approved.

O R D E R

IT IS ORDERED that:

1. Global Crossing Ltd. (Global Crossing) and Frontier Corporation (Frontier) are authorized pursuant to Section 854 of the Public Utilities Code to enter into the agreement and plan of merger, as more fully described in the application and its exhibits, by which Global Crossing will acquire control of Frontier's California operating subsidiaries.

2. Applicants shall notify the Director of the Commission's Telecommunications Division in writing of the transfer of authority, as authorized herein, within 10 days of the date of consummation of such transfer. A true copy of the instruments of transfer shall be attached to the notification.

3. Applicants shall file new tariffs incorporating any changes in rates, services and management authorized in the transfer transaction.

4. Global Crossing and Frontier shall make all books and records available for review and inspection upon Commission staff request.

A.99-04-034 ALJ/GEW/hkr

5. Application 99-04-034 is closed.

This order is effective today.

Dated June 30, 1999, at San Francisco, California.

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director