

In the matter of the merger of GTE Corporation and
Contel Corporation.

)
) Case No. TM-91-123
)

APPEARANCES: Dale E. Sporleder, Vice President and General Counsel, GTE North Incorporated, Post Office Box 407, Westfield, Indiana 46074, for GTE North Incorporated.

W.R. England, III and Paul A. Boudreau, Hawkins, Brydon & Swearengen P.C., Post Office Box 456, Jefferson City, Missouri 65102, for Contel Corporation.

Rollin J. Moerschel, Thompson & Mitchell, 200 North Third Street,
St. Charles, Missouri 63301, for City of St. Peters, Missouri.

Paula J. Fulks, Attorney, Southwestern Bell Telephone Company,
100 North Tucker Boulevard, Suite 630, St. Louis, Missouri 63101, for
Southwestern Bell Telephone Company.

Lewis R. Mills, Jr., Assistant Public Counsel, and Randy Bakewell, Assistant Public Counsel, Office of Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of Public Counsel and the public.

Mary Ann Young, General Counsel, Missouri Public Service Commission,
Post Office Box 360, Jefferson City, Missouri 65102, for the staff of
the Missouri Public Service Commission.

HEARING

EXAMINER: Cecil I. Wright.

REPORT AND ORDER

On September 14, 1990, GTE Corporation (GTE) and Contel Corporation (Contel) filed an application requesting authority to merge GTE Exchange Corporation, a wholly-owned subsidiary of GTE, with and into Contel, which would be the surviving corporation. As a result of the merger Contel would become a wholly-owned subsidiary of GTE. The Commission gave notice of this matter and set an intervention date.

By order issued November 2, 1990, the Commission granted intervention to the City of Columbia, Missouri, Boone County, Missouri, Regional Economic Development, Inc., and the City of St. Peters, Missouri. Southwestern Bell Telephone

Company filed an application to intervene out of time which was withdrawn on January 29, 1991.

A Stipulation And Agreement was filed by the parties for Commission consideration on January 18, 1991. A hearing was held as scheduled on January 30, 1991 for consideration of the Stipulation And Agreement.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact.

GTE Corporation, GTE, is a New York corporation which has a wholly-owned subsidiary, GTE North Incorporated (GTEN), which is a regulated public utility in Missouri. GTEN is a Wisconsin corporation which provides public telecommunications service to approximately 90,000 customers in its Missouri service area.

Contel Corporation, Contel, is a Delaware corporation which has five wholly-owned subsidiaries, Contel of Missouri, Inc., Contel System of Missouri, Inc., The Kansas State Telephone Company d/b/a Contel of Eastern Missouri; Contel of Arkansas, Inc., and Contel of Iowa, Inc. (referred to collectively as Regulated Subsidiaries), which provide public telecommunications service to approximately 223,000 customers in their respective Missouri service areas.

GTE created GTE Exchange Corporation, a Delaware corporation, for the express purpose of merging with Contel and Contel becoming the surviving corporation. It is proposed that after the merger GTEN will remain a separate subsidiary of GTE and the Regulated Subsidiaries of Contel will remain wholly-owned subsidiaries of Contel and second tier subsidiaries of GTE. As proposed, there will be no merger of these regulated corporations and no change in the provision of service by those regulated corporations at this time.

On January 18, 1991, the parties filed a Stipulation And Agreement, Attachment A to this Report And Order and incorporated herein by reference, which

proposed to settle all issues in this case. The Stipulation And Agreement provides that GTEN and the Regulated Subsidiaries agree not to file for a general rate increase nor shall Commission Staff or Public Counsel file a complaint until after July 1, 1992. Any general rate case proceeding after that date will be conducted on the combined operations of GTEN and the Regulated Subsidiaries. The Stipulation And Agreement provides further that (1) recovery of certain merger costs or an acquisition adjustment will not be sought from Missouri ratepayers; (2) studies of plant additions after July 1, 1991 will be conducted on a post-merger basis; (3) rate parity between the merged corporations will only be sought in a general rate case; (4) quality of service data, modernization reports and property records will be maintained and filed as currently required; and (5) Staff and Public Counsel shall be notified of any changes in operations or removal of any books and records currently located in Missouri. GTEN and the Regulated Subsidiaries agree to undertake feasibility studies for merging or consolidating operations which provide intrastate service in Missouri.

Staff filed testimony in support of the Stipulation And Agreement. Staff's support of the merger is based upon the conditions set out in the Stipulation And Agreement. These conditions protect Staff's ability to continue to audit and review the operations of the merged companies.

The Commission has reviewed the Stipulation And Agreement and the evidence in this matter. The Commission finds that approval of the merger will not be detrimental to the public interest. The Stipulation And Agreement provides for sufficient safeguards for the continued provision of safe and adequate telecommunications service to the affected customers and provides for sufficient safeguards to allow Staff and Public Counsel to review changes in operations which result from the merger. In addition, the rate moratorium will ensure stable telephone rates for Missouri customers until sometime after July 1, 1992.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law.

The Commission has jurisdiction over this matter pursuant to Section 392.300, R.S.Mo. (Cum. Supp. 1990). Section 392.300 requires that companies shall obtain authority from this Commission prior to any sale or transfer of the whole or any part of franchise, facilities or system necessary and useful in the performance of its duties to the public. The standard of review is whether the sale or transfer would be detrimental to the public. *State ex rel. Fee Fee Trunk Sewer, Inc. v. Litz*, 596 S.W.2d 466, 468 (Mo. App. 1980); *State ex rel. City of St. Louis v. PSC*, 73 S.W.2d 393, 400 (Mo. banc 1934).

The Commission may approve a stipulation of the issues in this case where it finds that the stipulation is not detrimental to the public. The Commission has so found and therefore concludes that the merger of GTE and Contel should be approved. In addition to concluding that there is no detriment to the public from this merger, the Commission considers the conditions of the settlement to be beneficial for purposes of protecting the public interest in the future.

IT IS THEREFORE ORDERED:

1. That the Stipulation And Agreement filed in this case be hereby approved and adopted.
2. That GTE Corporation and Contel Corporation be hereby authorized to merge in accordance with the application and the terms and conditions of the Stipulation And Agreement approved in ordered paragraph 1.
3. That GTE Corporation and Contel Corporation may take such actions as are necessary and proper to complete the merger approved in this Report And Order.

4. That this Report And Order shall become effective on the 11th day of February, 1991.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

Steinmeier, Chm., Mueller, Rauch,
McClure and Letsch-Roderique, CC.,
concur.

Dated at Jefferson City, Missouri,
on this 1st day of February, 1991.

FILED

JAN 18 1991

PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the merger of)
GTE Corporation and Contel) Case No. TM-91-123
Corporation.)

STIPULATION AND AGREEMENT

COME NOW Contel Corporation, GTE Corporation, GTE North, Contel of Missouri, Inc., Contel System of Missouri, Inc. and The Kansas State Telephone Company d/b/a Contel of Eastern Missouri (which latter three companies are hereafter referred to as the Contel operating companies), the Office of Public Counsel, and the Staff of the Missouri Public Service Commission, hereafter referred to as the Stipulating Parties, and for their Stipulation and Agreement in the above-referenced docket state as follows:

The Stipulating Parties recommend that the Missouri Public Service Commission approve the Application filed by Applicants Contel and GTE on September 14, 1990, subject to the following eleven conditions:

1. General Rate Case and Investigation of Earnings Moratorium. GTE North and the Contel operating companies will not file a general rate increase as defined in 4 CSR 240-30.060(3)(A) and the Staff and Public Counsel will not request the Commission to direct an investigation of their earnings until the merger between GTE Corporation and Contel Corporation is consummated or until July 1, 1992, whichever occurs later. Any such general rate case filings or

investigations of earnings will be on a total intrastate basis for GTE North's Missouri operations and the Contel operating companies operations in that such general rate case filing or investigation of earnings will reflect the financial results of their combined operations. For a period of five years after the merger, GTE North and the Contel operating companies will file their direct testimony supporting a request to increase rates at the time of the filing of the initial application and tariffs with the Commission.

2. Merger Associated Costs. Specific merger and acquisition costs of GTE Corporation and Contel Corporation will be separately identified on the books and records of both companies at the corporate parent level and Missouri jurisdictional level prior to the ultimate approval of the merger. Specific merger and acquisition costs of GTE Corporation will be separately identified on the books and records at the corporate parent level and Missouri jurisdictional level following the ultimate approval of the merger. The costs to be identified include those related to reaching a merger agreement between the two parent corporations and seeking regulatory approval of the merger as well as certain future implementation costs if the merger is approved. GTE North and the Contel operating companies will not seek to recover such amounts in any future Missouri rate case filings or investigation of earnings. However, such costs do not include the planning of or changes in operations or implementation of programs which may result from the merger as contemplated in Paragraph 10. The costs and/or

savings associated with such planning and changes will be considered in future Missouri rate cases or investigations of earnings in accordance with general accounting and ratemaking principles.

3. Acquisition Adjustments. Inasmuch as the merger will be accounted for as a "pooling of interests," GTE North and the Contel operating companies will not seek to recover in any future Missouri rate case filings or investigations of earnings any increased amounts in the equity base of the merged corporate parents which could be inflated by an acquisition adjustment.

4. Plant Additions. GTE North and the Contel operating companies' plans which call for plant additions after July 1, 1991, which could be deemed to reasonably affect the economic efficiency of GTE North and the Contel operating companies as a whole will be studied or restudied on a post-merger basis, except the plans listed on documents provided to Staff and Public Counsel for plant additions for which firm commitments have been made.

5. Rate Parity. GTE North and the Contel operating companies will only propose rate parity, in which rates and charges of any of their operations will be both increased and decreased, in general rate case filings or investigations of earnings. However, they may propose rate parity outside of general rate case filings or investigations of earnings by (i) decreases in rates and charges, or (ii) increases and decreases in discretionary services which result in revenue neutrality for such discretionary services, but the term discretionary services

shall not include switched and special access services. Staff and Public Counsel do not hereby commit to recommend adoption of any such rate parity proposals, but they agree such proposals will be treated in the normal course of business.

6. Quality of Service Data. GTE North and the Contel operating companies will continue to be bound by the Commission's Quality of Service Rules, 4 CSR 240-32, and the collection of data and reporting of same will continue as prescribed in such rules. No changes or aggregation in the reporting of such data shall be made without notice to Staff and Public Counsel.

7. Modernization and Retirement Schedule Reports. GTE North and the Contel operating companies will continue filing modernization and retirement schedule reports as required by case numbers TO-80-35 (GTE) and TR-82-223 (Contel), respectively. This provision does not prohibit a future combination of these reports into a single report, if agreed to by the Staff, Public Counsel, GTE North and the Contel operating companies, and approved by the Commission.

8. Continuing Property Records. GTE North and the Contel operating companies will maintain basic and continuing property records so that studies can be performed based upon monthly information as to dates of installation and removal.

9. Books and Records. GTE North and the Contel operating companies will notify the Staff and Public Counsel at least three months in advance if they intend to remove any portion of their books and records currently kept in Missouri to other jurisdictions.

10. Feasibility Studies. GTE North and the Contel operating companies will, on a timely basis following the approval of the merger between GTE Corporation and Contel Corporation, undertake feasibility studies for merging and/or consolidating the operations of their Missouri intrastate operations. These feasibility studies should consider possible post-merger efficiencies and economies in personnel, location of offices, and any other aspects of their Missouri operations. This provision includes, but is not limited to, consolidation, closing, or any significant changes in public business offices or business office functions such as; (i) customer inquiries, (ii) applications for service, (iii) trouble reports, (iv) directory assistance, and (v) customer payment locations. GTE North and the Contel operating companies agreement with this paragraph should not be construed to confer any additional jurisdiction, supervision, control, authority, or power to the Commission over GTE North and the Contel operating companies' operations other than which it currently has by law. This requirement to conduct feasibility studies shall terminate at such time as the Staff, Public Counsel, GTE North and the Contel operating companies agree they are no longer required. In the event the parties cannot agree, the matter may be taken to the Commission for resolution.

11. Notification of Changes in Operations. GTE North and the Contel operating companies will notify the Staff and Public Counsel at least two months prior to any scheduled or required notice to customers, employees or the public of the

intent to implement any plans which will result in changes in operations, including public business offices or business office functions. If no notice to customers, employees or the public is required or contemplated, notification to the Staff and Public Counsel shall be provided two months before such plans are to be implemented. However, the Staff and Public Counsel may agree to a shorter period of time for implementation of such plans. Feasibility studies conducted pursuant to Paragraph 10 above will be provided concurrent with this notice to Staff and Public Counsel, along with any form of notice to customers, employees, or the public which they intend to provide. Staff reserves its right to bring any concerns it has with the plans to the attention of the Commission. However, such reservation of right and GTE North's and the Contel operating companies' agreement with this paragraph should not be construed to confer any additional jurisdiction, supervision, control, authority, or power to the Commission over GTE North's and the Contel operating companies' operations other than which it currently has by law. This requirement to provide notice shall terminate at such time as the Staff, Public Counsel, GTE North and the Contel operating companies agree it is no longer required. In the event the parties cannot agree, the matter may be taken to the Commission for resolution.

ADDITIONAL STIPULATIONS

A. Nothing in this document is intended to preclude implementation of any change in rates which may be necessitated by court order as a result of the pending appeal of GTE North's

most recent rate case (consolidated Case Nos. TR-89-183, TR-89-238 and TC-90-75).

B. Notwithstanding the language of condition 1 above, none of the stipulating parties shall be precluded from filing a tariff, complaint, petition, application, or other pleading which would have the effect of increasing or decreasing the aggregate level of GTE North's or the Contel operating companies' jurisdictional revenues in the event extraordinary circumstances arise (such as statutory, regulatory or judicial actions) which are beyond the control of GTE North, the Contel operating companies, Staff or Public Counsel and which would cause the continued adherence to this Stipulation and Agreement to become unfair and unreasonable. The burden will be upon the party making such filing to demonstrate that extraordinary circumstances have arisen which are beyond the control of GTE North, the Contel operating companies, Staff or Public Counsel and which would cause the continued adherence to the Stipulation and Agreement to be unfair and unreasonable.

C. The prefiled direct testimony submitted by GTE Corporation and Contel Corporation and the Staff in this docket shall be received into evidence without the necessity of their respective witnesses taking the stand.

D. This Stipulation and Agreement represents a negotiated settlement for the sole purpose of disposing of this case, and none of the parties to this Stipulation and Agreement shall be prejudiced or bound in any manner by the terms of the

Stipulation and Agreement in any other proceeding, except as otherwise specified herein.

E. None of the parties to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking principle or any method of cost determination or cost allocation underlying or allegedly underlying this Stipulation and Agreement.

F. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the stipulating parties waive their respective rights to cross-examine witnesses; their respective rights to present oral argument and written briefs pursuant to Section 536.080.1 RSMo 1986; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo 1986; and their respective rights to judicial review pursuant to Section 386.510 RSMo 1986.


G. This Stipulation and Agreement has resulted from extensive negotiations among the stipulating parties and the terms hereof are interdependent. In the event the Commission does not approve and adopt this Stipulation and Agreement in total, or in the event the merger is not consummated, the Stipulation and Agreement shall be null and void and no party shall be bound by any of the agreements or provisions hereof.

H. The Staff shall have the right to submit to the Commission, in memorandum form, an explanation of its rationale for entering into this Stipulation and Agreement, and to provide to the Commission whatever further explanation the Commission requests. The Staff's memorandum shall not become a part of the


record of this proceeding and shall not bind or prejudice the Staff in any future proceeding or in this proceeding in the event the Commission does not approve the Stipulation and Agreement. Any rationales advanced by Staff in such a memorandum are its own and not acquiesced in or otherwise adopted by the other stipulating parties.

Respectfully submitted,

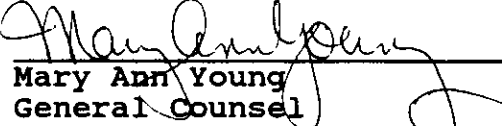
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all parties of record this 18th day of January 1991.