DECISION MEMORANDUM

TO:COMMISSIONER HANSEN

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COMMISSIONER SMITH

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DAVID SCOTT

WORKING FILE

FROM:CHERI C. COPSEY

DATE:DECEMBER 10, 1998

RE:APPLICATION OF DIRECT COMMUNICATIONS ROCKLAND, INC. AND DIRECT COMMUNICATIONS LAKESIDE COMMUNICATIONS, INC. FOR AN ORDER AUTHORIZING THE MERGER OF THE APPLICANT COMPANIES.  CASE NO. ROK-T-98-1.

On November 3, 1998, the Commission received an Application from Direct Communications Rockland, Inc. and Direct Communications Lakeside Communications, Inc. for an order authorizing the merger of the applicant companies.  Rockland is a regulated company that provides basic local exchange and other telecommunications services in the Rockland and Arbon exchanges in southeastern Idaho.  Lakeside is a regulated company that provides basic local exchange and other telecommunications services in the Paris exchange in southeastern Idaho.  Lakeside is a wholly-owned subsidiary of Rockland.

Lakeside was created as a Rockland subsidiary to acquire the Paris exchange from U S WEST pursuant to a 1994 asset purchase agreement.  One of the conditions of the agreement required the purchaser to maintain U S WEST’s applicable local exchange rates for a period of three years.  According to the Applicants, the Lakeside subsidiary was created “in order to provide a clean line of demarcation between Rockland and the Paris exchange” to simplify accounting and regulatory issues.  The Applicants claim that this original rationale for operating the Paris telephone property as a separate subsidiary is no longer valid.

The Applicants claim that the merger will be advantageous to both companies and to the Commission.  They claim that both will realize cost savings by eliminating duplicate functions and will alleviate regulatory costs associated with investigating and resolving the proper allocation of joint and common costs between the companies.  Moreover, the Applicants claim it will give them better access to capital and the combined companies will be eligible for Rural Utilities Service hardship loans with a five percent (5%) annual interest rate.  Currently, only Rockland is eligible for such loans.

The Applicants also claim that the merger will require Rockland’s and Lakeside’s lenders to approve the merger.  The Application states that Rockland has a total debt to Rural Utilities of $2,260,421 that is secured by the first mortgage lien on Rockland’s assets.  The Application states that Lakeside has a total debt of $2,748,323 to Rural Telephone Finance Corporation secured by a first mortgage lien on Lakeside’s assets.  The Application states that both Applicants are requesting both Rural Telephone Finance Corporation and Rural Utilities Service agree to a shared first mortgage line on the merged entity’s assets.  The Application further states that while a final agreement has not been reached, both lenders are amenable to this arrangement.

Finally, the Application states that the merger is revenue neutral and will not affect either Rockland or Lakeside’s rates and charges.  The two companies now have identical rates for basic local exchange service.  However, there are some remaining rate differences, primarily involving access charges and recurring rates for vertical services.  A copy of the merger plan and agreement was filed with the Application.  No proposed tariff has been filed.

STAFF RECOMMENDATION

These matters do not require formal hearings and, therefore, Staff recommends that this Application for an order authorizing the merger of the applicant companiesbe handled under Modified Procedure with a 21 day comment period.

Commission Decision

Does the Commission want to process this Application under Modified Procedure?

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Cheri C. Copsey