

In the Matter of the Joint Notice of Citizens)
Utilities Company, Citizens Newco)
Company, Citizens Telecommunications)
Company of Utah, Citizens)
Telecommunications Company, Navajo)
Communications, and Electric Lightwave,)
Inc., of Proposed Transfer of Control)

DOCKET NO. 98-2218-04

REPORT AND ORDER

ISSUED: February 23, 1999

SYNOPSIS

The proposed transfer of control appearing to present no detriment to the public interest, the Commission approved the same.

By the Commission:

PROCEDURAL HISTORY

On December 7, 1998, the above-named entities filed their joint petition for transfer of control. The Commission referred the matter to Division of Public Utilities, Utah Department of Commerce ("DPU"), for review. DPU filed a memorandum supporting the petition on February 1, 1999. In the interim, no opposition to the proposed reorganization has appeared, nor does it appear that any will. It does not appear that an evidentiary hearing is necessary, nor would one be helpful or convenient in disposing of this matter. Accordingly, on its own motion, the Commission will proceed to dispose of the matter on its merits without the taking of further evidence. The Administrative Law Judge, having been fully advised in the matter, now enters the following Report, containing proposed findings of fact, conclusions of law, and the Order based thereon.

FINDINGS OF FACT

Note: the following findings of fact are taken from DPU's memorandum.

1. Citizens Utility Company ("CUC") is a diversified, publicly held company providing telecommunications, electric, gas, water and wastewater services throughout the country. CUC provides these services through many subsidiaries divided into two primary businesses: (1) the Public Services Sector--electric, gas, water and wastewater services, and (2) the Communications Sector--communications related businesses. CUC is a holding company and does not directly operate or provide utility services in the individual states.

2. CUC's current operations in Utah are all within the Communications Sector. CUC's services currently offered in Utah are:

Local exchange telecommunications services provided by CUC's wholly owned subsidiary Citizens Telecommunications Company of Utah;

Navajo Communications Company, Inc., owned by CUC through its subsidiary Citizens Telecommunications Company

of Tuolomn;

Electric Lightwave, Inc., a competitive local exchange carrier in which CUC owns a controlling interest;

Nationwide long distance service provided by CUC's wholly owned subsidiary Citizens Telecommunications Company;
and

Resold local exchange telecommunications services provided by Citizens Telecommunications Company.

3. CUC plans to transfer all CUC stock and control of its communications subsidiaries to a new corporation ("Newco") and distribute the stock of Newco to Citizens' shareholders. The transaction does not involve transfer of franchises, licenses, Certificates of Public Convenience and Necessity or Certificates of Authority, or the assignment or transfer of assets from the communications entities to Newco. After this separation, the public service sector electric, gas, and water/wastewater subsidiaries and divisions will continue to be owned by Citizens. The proposed transaction will be governed by a Separations Agreement that will be executed by Citizens and Newco.

4. Newco will have sufficient capital to assure financial strength and stability. According to CUC's Separation Plan, Citizens' Communications Sector generates about \$875 million in annual revenue and \$160 million in annual operating income, and Newco will assume approximately \$650 to \$750 million of net debt; thus producing a initial ratio of equity to debt and equity capital of approximately 60%.

5. Since CUC's current operations in Utah are all within the Communications Sector, there is no actual separation of companies in Utah, but a transfer of control. This transfer will produce a reformation from a decentralized administration of CUC's services to a centralized administration of telecommunications services which will allow for a more concentrated effort and focus on those telecommunications services.

DISCUSSION

It does not appear that the transfer of all Communications stock and ownership control of the Communications subsidiaries to a new holding company will effect CUC's day to day operations in Utah; indeed it appears that the Utah operations may be enhanced or financially strengthened by a more intense focus of management's efforts towards telecommunications services. Such an outcome appears to be in the public interest.

CONCLUSIONS OF LAW

The petition should be approved.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

The joint petition be, and it is, approved.

Any person aggrieved by this Order may petition the Commission for review within 20 days of the date of this Order. Failure so to do will forfeit the right to appeal to the Utah Supreme Court.

DATED at Salt Lake City, Utah, this 23rd day of February, 1999.

/s/ A. Robert Thurman
Administrative Law Judge

Approved and Confirmed this 23rd day of February, 1999, as the Report and Order of the Public Service Commission of Utah.

/s/ Stephen F. Mecham, Chairman

(SEAL) /s/ Constance B. White, Commissioner

/s/ Clark D. Jones, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary