May 15, 1995

DOCKET NO. P-5159/NA-95-146

ORDER GRANTING CERTIFICATE OF AUTHORITY

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner

In the Matter of a Request for a Certificate of Authority to Resell Long Distance and Directory Assistance Services

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PROCEDURAL HISTORY

On February 22, 1995, OCOM Corporation (OCOM or the Company) filed a petition requesting a certificate of authority to resell long distance and directory assistance services.

On March 28, 1995, the Minnesota Department of Public Service (the Department) filed its comments regarding OCOM's petition. The Department recommended that the Commission deny the Company's petition. Based on its review of financial information provided by the Company, the Department concluded that OCOM lacked the financial stability to assure that it would be capable of providing adequate telecommunications services both in the short term and in the long term.

On April 4, 1995, OCOM filed a response to the Department's recommendations, including the Company's operating results for the year 1994.

On April 7, 1995, the Company submitted the annual reports for four years (including 1994) for its parent company, International CableTel, Inc.

On April 18, 1995, the Department filed reply comments to the Company's April 4 and 7 filings. The Department included the audited financial statements that were included with the Company's Form 10-K for December 31, 1994 as filed with the Securities and Exchange Commission (SEC). The Department maintained its recommendation that the Commission deny the Company's application .

On May 9, 1995, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. OCOM's Petition

OCOM has requested a Certificate of Authority to resell long distance and directory assistance services in Minnesota. The Company is a provider of long distance communications in Ohio, Indiana, Kentucky, Michigan and Nevada and has plans to begin providing service in several other states within the next few months. OCOM explained that it sought certification in Minnesota to be able to participate in the equal access balloting process which will be held by Cellular One for cellular telephone customers in several Minnesota counties. The Company stated that it has operated successfully in competition with other long distance providers in other states and, based on its market research, believes that it would be a very competitive provider in Minnesota.

B. The Issue

OCOM's financial and professional record as a stand-alone company raises no concern for its capability to serve well in Minnesota. OCOM has been profitable every year since it was created in 1991. In 1994, the Company handled well over 1 million minutes per month in long distance, interexchange traffic, posted $9.5 million in total revenues, and had assets of over $48 million.

However, OCOM is a wholly-owned subsidiary of International CableTel, Inc. (CableTel) and OCOM's relationship with its parent (CableTel) and the possible negative ramifications of that relationship on OCOM's ability to serve Minnesota customers is cause for concern and closer scrutiny.

C. The Department's Recommendation

In its review of the financial information provided by OCOM, the Department argued that while OCOM has been profitable, the financial results of the consolidated group have deteriorated significantly since 1992. Total revenues have remained relatively constant at $10 million to $14 million while operating expenses have increased almost five times from the 1992 level to $53.6 million in 1994. Operating losses for 1994 were $39.9 million compared to operating income of $655,000 in 1992. There was a net loss of $29.6 million in 1994 compared to net income of $1.2 million in 1992. During this period, the retained earning deficit at December 31, 1994 was $38.8 million compared to a deficit of $9.2 million at December 31, 1993.

Based on these facts, the Department doubted the ability of the consolidated group to generate revenues at a level sufficient to enable OCOM to pay its long term debt and interest costs. In short, the Department argued, the financial precariousness of the consolidated group jeopardized OCOM's ability to maintain service to its Minnesota customers. Absent assurance of ability to maintain service in the short and long term, the Commission should not grant OCOM the requested certificate of authority to operate in Minnesota.

D. OCOM's Response

OCOM acknowledged the accuracy of the financial facts cited by the Department but argued that understanding those facts in a broader context would lead to a different conclusion: that the Company's financial condition adequately supported Commission confidence in the Company and warranted granting the requested authority to operate in Minnesota.

OCOM explained that its parent, CableTel, was incorporated to develop, construct, and operate broadband communications systems primarily in the United Kingdom. The figures which the Department characterizes as representing a "deteriorating" financial condition actually represent the normal expenditures in excess of revenues during the start-up period for any business. In the case of CableTel, the situation is aggravated by the capital intensive nature of the telecommunications business which requires large expenditures for franchise fees and equipment. At this point, however, OCOM stated that CableTel's expenditures in the United Kingdom have positioned it to be very successful.

As evidence of CableTel's strengthening position, OCOM noted that 1) CableTel is already the 4th largest cable operator in Great Britain, 2) has been able to obtain a significant amount of financing from the market this year (approximately $300 million), and 3) has received a very positive report from Solomon Brothers, a reputable Wall Street brokerage firm. Among other things, the Solomon Brothers Report projects CableTel revenues for 1995 as $38 million and $1.5 billion in ten years.

OCOM's 1994 financial statement shows that the Company's accounts receivable are high when compared to revenues. This represents the amount of money that OCOM has flowed to its parent, CableTel. CableTel uses this money largely to pay its employees in the United Kingdom. OCOM argued that this was not a weakness for OCOM. Because the accounts receivable are inter-company, OCOM stated that they could be acquired by the Company at any time. Moreover, the Company stated that when it transferred this considerable amount of money to CableTel, it (OCOM) gained an equity interest in its (CableTel's) assets which now include substantial franchise rights and will include the cable system once it is in place.

E. Commission Action

Reasonable continuity of service is a basic standard which characterizes adequate telecommunications service in Minnesota. To be entitled to a certificate of authority to provide telecommunications service in Minnesota, an applicant must be able to provide assurance that it is capable of meeting that standard.

The Commission finds that despite the strong history of financial performance on the part of OCOM and the projected strength for its parent company CableTel, there remains at this time a possibility that OCOM's ability to provide continuous service in Minnesota will be interrupted for reasons discussed previously. In these circumstances, the Commission finds that it would be prudent to safeguard Minnesota subscribers from incurring the cost of transferring service to another provider that would be occasioned by any such forced shut down of OCOM services. In this regard, the Commission notes that OCOM, by representation at the May 9, 1995 hearing on this matter and by letter dated the same day, has stipulated that failure to provide a surety bond of $25,000 for a period of one year within 60 days of this Order may be deemed failure to provide adequate service for purposes.

The Commission finds that the sum of $25,000 is a reasonable size for such a bond in light of the cost of transfer (approximately $5.00) and the number of subscribers that the Company anticipates having within the first year of its operations in Minnesota. Accordingly, the Commission will require the Company to post a bond in the sum of $25,000 to cover subscribers' transfer costs required by such circumstances.

Based on its consideration of all the circumstances in this mater, then, the Commission will grant OCOM a Certificate of Authority to provide long distance and directory assistance in Minnesota. This Certificate is revocable in that the Commission may revoke the Certificate if, within 60 days of this Order, the Company fails to file with the Commission a surety bond which is 1) in the amount of $25,000, 2) for the term of one year, and 3) for the purposes of paying the transfer costs of any subscriber whose service the Company terminated due the Company's inability to provide service.

ORDER

1. OCOM, Inc. is hereby granted a Certificate of Authority to resell long distance and directory services in Minnesota.

2. The Certificate thus granted shall be revoked by the Commission for failure to provide adequate services if, within 60 days of this Order, the Company fails to file with the Commission a surety bond which is

   a) in the amount of $25,000,

   b) for the term of one year, and

   c) for the purposes of paying transfer costs to another provider for any subscriber whose service the Company terminated due the Company's inability to provide service.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)