ALJ/FJO/jc

Decision 88 12 038 DEC 9 1988 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA Mailed DEC 12 1988

In the Matter of the joint Application of CP National Corporation (U 11 M), a California corporation, and ALLTEL Corporation, an Ohio corporation, for an order authorizing the acquisition of CP National Corporation by ALLTEL Corporation.	Application 88-09-005 (Filed September 2, 1988)

Orrick, Herrington, & Sutcliffe, by Robert Gloistein, Attorney at Law, for CP National Corporation and Alltel Corporation, and Thomas V. Mulvaney, Attorney at Law, for CP National Corporation, applicants.
Kathleen C. Maloney, Attorney at Law, for the Division of Ratepayer Advocates.

O P I N I O N

Alltel Corporation (Alltel) seeks authority to acquire CP National Corporation (CPN). CPN is a public utility operating gas and telephone systems in various parts of California. Under the terms of the Plan of Reorganization and Merger (Agreement) which is attached as Exhibit C to the application CPN will continue as an operating company and will become a wholly owned subsidiary of Alltel.

Public hearing was held before Administrative Law Judge (ALJ) O'Leary at San Francisco on November 15, 1988 at which time the matter was submitted. Subsequent to submission a "Motion for Waiver and Motion to Adopt Settlement Agreement and Stipulation" (settlement agreement) was jointly filed by applicants and the Division of Ratepayer Advocates (DRA). The settlement agreement, which is attached hereto as Appendix A, requests that the Commission adopt the uncontested settlement proposal set forth as the complete and final resolution of the matter.

The settlement agreement sets forth the procedural background and goes into great detail with respect to the entire proceeding. The details of the settlement agreement need not be repeated herein.

Based upon the details set forth in the agreement we make the following:

<u>Findings of Fact</u>

1. CPN is a public utility which owns and operates gas and telephone systems in various parts of California, Oregon, and Nevada.

2. Alltel seeks authority to acquire CPN as a wholly owned subsidiary.

3. Notices concerning the acquisition application and the public hearing were sent to CPN's customers.

4. Correspondence received from the customers as a result of the notices set forth in Finding 3 was on the subject of rate changes. Rate changes are beyond the scope of this proceeding.

5. No protests to the application have been received.

6. Subsequent to submission the settlement agreement which is attached hereto as Appendix A was jointly filed by applicants and the DRA.

7. The settlement agreement set forth in Finding 6 is reasonable and should be adopted.

8. The settlement agreement requests a waiver of Article 19 of the Rules of Practice and Procedure and also request a waiver of the requirement in Section 311(d) of the Public Utilities Code that the Commission shall issue its decision not sooner than 30 days following filing and service of the proposed decision of the ALJ.

9. The waiver request is subject to the condition that the ALJ's proposed decision is available to the parties at least five days before the Commission Meeting at which the matter is to be acted upon.

<u>Conclusions of Law</u>

1. The application should be granted as set forth in the following order.

2. The request for waivers as set forth in Finding 8 should be granted.

3. This order should be effective on the date signed because the parties are desirous of consummating the acquisition prior to the close of business on December 31, 1988, which is the end of each company's fiscal year.

<u>O R D E R</u>

IT IS ORDERED that:

1. Alltel Corporation may acquire CP National Corporation subject to the proposed conditions set forth in Appendix I of the Settlement Agreement, which proposed conditions are made actual conditions to the authority herein granted.

2. The provisions of Article 19 of the Rules of Practice and Procedure and the requirement in Section 311(d) of the Public Utilities Code that the Commission shall issue its decision not sooner than 30 days following filing and service of the proposed decision by the ALJ are waived.

This order is effective today.

Dated DEC 9 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Victor Weisser, Executive Director

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BEFORE THE PUBLIC UTILITIES COMMISSON
OF THE STATE OF CALIFORNIA

In the Matter of the joint application of CP National Corporation (U 11 M), a California corporation, and ALLTEL Corporation, an Ohio corporation, for an order authorizing the acquisition of CP National Corporation by ALLTEL Corporation	Application 88-09-005

MOTION FOR WAIVER AND MOTION TO ADOPT
SETTLEMENT AGREEMENT AND STIPULATION

In accordance with Rule 51 of the Commission's Rules of Practice and Procedure (the "Rules"), the parties of record in this proceeding respectfully request that the Commission adopt the uncontested settlement proposal set forth herein as the complete and final resolution of this proceeding. The resolution described herein is reasonable, represents a mutually acceptable outcome to the proceeding, consistent with the law and in the public interest.

PROCEDURAL BACKGROUND

On September 2, 1988, CP National Corporation ("CPN") (U 11 M) and ALLTEL Corporation ("ALLTEL") filed an application, along with supporting exhibits (the "Application)"), with the Commission for authorization of the acquisition of CPN by ALLTEL. Prepared testimony was submitted by the Commission's Division of Ratepayer Advocates ("DRA") by letter dated November 4, 1988. Prepared testimony was also submitted by CPN and ALLTEL by letter dated November 10, 1988. The matter was set for hearing on November 15, 1988.

Notice of filing the application appeared on the Commission's Daily Calendar on September 9, 1988. On October 11 or 12, 1988, CPN mailed a postcard notice to each of its California gas and telephone customers that the Application had been filed. On October 31 or November 1, 1988, CPN mailed a postcard notice to each of those customers that a hearing on the Application had been set for November 15, 1988. No protest to the Application has been filed.

At the hearing, the previously filed prepared testimony was identified as exhibits and admitted into evidence, together with copies of the customer postcard notices and the Drexel Burnham Lambert Incorporated letter referred to below. The sponsoring witnesses were available for cross-examination. In addition, pursuant to Rule 72, at the request of the parties, Application No. 88-09-005, together with exhibits and verifications, was received in evidence by reference.

Pursuant to discussions held at the hearing, the parties to the Application agreed and stipulated that the proposed acquisition be approved, provided that the Commission adopt as part of its order the 13 conditions attached as Appendix I to Chapter IV of the DRA's report. CPN and ALLTEL agree to the imposition of such conditions. A copy of Appendix I is attached hereto. In addition, in response to service concerns raised by Robert Mussetter, a customer of CPN in Colusa County, the parties have included in Appendix I a further condition No. 14. Mr. Mussetter indicated that such type of condition would be acceptable to him, that he had no further interest in the Application, and that his appearance was withdrawn.

The undersigned parties desire to resolve the issues associated with the Application and have, therefore, entered into the Agreement which is incorporated herein. The parties entered into this Agreement on the basis that all of the elements of the Agreement be adopted in the form submitted.

CPN/ALLTEL APPLICATION

CPN owns and operates gas and telephone systems in various parts of California, Oregon and Nevada. CPN's last remaining electric property in Oregon was sold to Oregon Trail Electric Consumers Cooperative, Inc. in October 1988. Through its subsidiary, Great Southwest Telephone Corporation, CPN operates telephone systems in Texas, New Mexico, Utah and Arizona. Through subsidiaries CPN engages in non-utility manufacturing and investments and services operations.

The approximate percentage of operating revenues for 1987 attributable to each of CPN's operating units is: telephone 36%, gas 17%, electric 17%, manufacturing 24%, and investments and services 6%. At December 31, 1987, CPN had

1,850 employees, approximately 800 of whom are located in California.

CPN provides local service and toll network access to 15,099 customer lines in California exchanges representing 4.8% of total CPN revenues. Its service areas include Colusa County, and the communties of Needles, Westwood and Lake Almanor, and, through its wholly-owned subsidiary, Tuolumne Telephone Company, the communities of Tuolumne, Oak Run and Shingletown. CP National provides gas service in South Lake Tahoe and Needles to a total of 14,284 gas customers representing 4.3% of total CPN revenues.

CPN's California utility properties consist principally of telephone lines and central office equipment, gas distribution lines and equipment, land, rights of way, and buildings,, including its leased headquarters facility in Walnut Creek, California, the depreciated book value of which are as follows, at June 30, 1988:

Telephone	
CP National	$18,246,991
Tuolumne Telephone Company	$12,502,865
Gas	
South Lake Tahoe	$ 7,150,373
Needles	$ 1,002,407
TOTAL	$38,902,636

ALLTEL was founded in 1960 as Mid-Continent Telephone Corporation, a network of five small Ohio telephone companies serving 50,000 customers. In October 1983, Allied Telephone Company merged into Mid-Continent Telephone

Corporation, and the name of the corporation was changed to ALLTEL Corporation. ALLTEL is the nation's sixth largest non-Bell telephone company, with 28 telephone operating subsidiaries serving more than one million customers in 19 midwestern, eastern and southern states. ALLTEL currently has no operations in California. At December 31, 1987, ALLTEL had 5,695 employees.

ALLTEL is divided into four operating units: ALLTEL Telephone Operations, ALLTEL Mobile Communications, Inc., which provides cellular telephone service, ALLTEL/Texocom Supply, which distributes telephone supply equipment, and ALLTEL Investments. For 1987, the approximate percentage of revenues derived from each of ALLTEL's operating units is: telephone 78%, supply 15%, and other operations 7%.

As of December 31, 1987, ALLTEL's telephone operating subsidiaries provided local service and toll network access to 982,996 customer lines through 496 exchanges in 19 states. The telephone operating subsidiaries also offer facilities for private line, teletype, data transmission, and other communications services.

By the terms of the Plan of Reorganization and Merger (the "Agreement") attached as an exhibit to the Application, CPN will merge with a wholly-owned subsidiary of ALLTEL formed for the purpose of consummating the acquisition, and CPN will be the surviving corporation and become the wholly-owned subsidiary of ALLTEL. Under the Agreement, each outstanding share of common stock of CPN will be converted into the right to receive 1.15 shares of ALLTEL common stock. Shareholders of CPN will not receive any cash in the proposed acquisition, except in lieu of receiving fractional shares or if they are eligible for, and perfect, statutory dissenters' appraisal rights.

As of June 30, 1988, 7,467,867 shares of CPN common stock were outstanding and 1,621,109 shares of common stock issuable upon the conversion of CPN convertible debt and upon exercise of employee stock options, all of which may be exchanged for shares of ALLTEL common stock. Based on recent New York Stock Exchange trading prices of ALLTEL common stock, the total value of CPN common stock to be exchanged in the acquisition (net of the consideration received on conversion or exercise) would be approximately $350,000,000. This represents a premium over the market price of CPN's common stock immediately prior to the announcement of the acquisition.

The obligations of both parties under the Agreement are subject to the satisfaction or waiver of several conditions, including receipt of required regulatory approvals and approval of the acquisition by the shareholders of both CP National and ALLTEL. CPN has received the written opinion of Drexel Burnham Lambert Incorporated stating that the exchange ratio relating to the consideration to be paid to the shareholders of CPN in the acquisition is fair to the shareholders of CPN from a financial point of view.

ALLTEL is a large diversified telecommunications company with total asets of nearly $1.7 billion at June 30, 1988, and oprating revenues of $787 million and net income of $120 million for the twelve months ended June 30, 1988. ALLTEL has demonstrated its ability to successfully manage rural and suburban telephone utility properties and related businesses over a widely disperse geographic area, providing highest quality service to its customers. CPN's properties fit precisely with this type of operation. Both CPN and ALLTEL are predominantly telecommunications companies serving similar customers. CPN's gas operations are quite similar demographically and require much the same management skills as rural telephone operations. CPN's Gas Department will remain entirely intact after the acquisition.

ALLTEL management is committed to providing quality service at the best possible value (with service quality results exceeding commission requirements in every state), provides a good working environment to attract and retain employees dedicated to quality service, and supports local activities in the communities it serves.

ALLTEL possesses better financial and operational resources, access to capital markets and purchasing power than CPN. Acquisition of CPN will enhance that situation, producing a combined corporation approximately five times larger than CPN. CPN and ALLTEL believe that the combined operations will produce greater operations efficiencies and lower costs of capital than currently available to CPN and thereby produce lower cost of service for CPN ratepayers. The Standard & Poor's ratings for the senior unsecured debt of

ALLTEL and CPN, respectively, are A and BBB-. In addition, as a result of the acquisition, CPN would become part of the sixth largest non-Bell telephone company in the nation, and CPN's ratepayers will share in a more significant position with the National Exchange Carriers Association and other state and national organizations which have had and will continue to have a major role in determining the ultimate impacts of the Bell System divestiture and telephone deregulation on telephone service in rural America.

ALLTEL does not anticipate any personnel reductions at the customer operations or services levels as a result of the acquisition. CP National will maintain all existing business locations.

DRA REPORT

Staff of the DRA reviewed the Application and various responses to its Data Reqeusts received from CPN and ALLTEL. The DRA recommends the conditions set forth in Appendix I as necessary to safeguard the interests of CPN's California ratepayers. DRA believes that CPN's acceptance of the conditions set forth in Appendix I will satisfy its concerns and will allow for the accrual of long-term benefits for California ratepayers, including (a) reduced capital costs arising from ALLTEL's higher bond rating; (b) reduced corporate overhead costs including elimination of some reporting cost, and elimination of top corporate positions including the Chief Executive Officer, President and Chief Operating Officer, and Corporate Secretary; and (c) elimination of cost duplication for material procurement, research and development, and regulatory affairs. These benefits should delay the timing as well as the magnitude of CPN's future rate increases. CPN and ALLTEL estimate that there will be a net savings in overhead for CPN's California telephone and gas operations of $159,877 and $26,230, respectively, the first year after the acquisition. DRA believes that the imposition of the conditions set forth in Appendix I, along with the benefits noted above, make the acquisition of CPN by ALLTEL in the long run interest of California ratepayers.

DRA reviewed the financial and operational reasons for the acquisition set forth in the Application, including liquidity, leverage, profitability, growth and valuation. The DRA's review indicates that both CPN and ALLTEL bring certain strengths and weaknesses to a potential acquisition.

In CPN, ALLTEL is acquiring a firm with a strong balance sheet in terms of its short-run assets and liabilities, strong historical growth in sales and assets, and a geographical complement to ALLTEL's own operations. CPN for its part will be part of a larger, less leveraged and thus less risky company. This will allow CPN access to cheaper captial to finance its continued growth. Based on its current profitability and its historic income growth, ALLTEL has shown that it can effectively manage and organize the assets and operation of small local and regional telephone companies which are a growing part of CPN's operations. CPN and ALLTEL point out in the Application that CPN's gas operations are quite similar demographically and require much the same management skills as rural telephone operations, and CPN's Gas department will remain entirely intact after the merger.

The acquisition by ALLTEL provides CPN access to ALLTEL's managerial and organizational expertise. Similarly, the acquisition gives ALLTEL a company with a strong cash position and a record of strong sales and asset growth. These strengths complement ALLTEL's own ability to manage a system of local and regional telephone operations.

Finally, DRA reviewed the recent PacifiCorp merger proceeding and Southern California Edison Corporation reorganization proceeding and fashioned a set of analogous conditions its believes are appropriate for CPN and ALLTEL. These 13 conditions are set forth in Appendix I.

WAIVERS

Each appearance in this proceeding has agreed to the terms and conditions of the Agreement. Accordingly, pursuant to Rule 51.10 of the Commission's Rules of Practice and Procedure the parties request that the Commission waive its Rules on Stipulations and Settlements to the extent necessary to allow the Commission to issue its decision based solely on this Motion and the Agreement incorporated herein. Because the parties represent differing interests and are unanimous in their position with respect to the Agreement, the public interest will not be impaired by the waiver of those Rules.

For the same reasons set forth above, but subject to the condition set forth in the next sentence, the parties further waive Section 311 (d) of the Public Utilities Code ("Code") and request that the Commission issue its decision adopting this Agreement as soon as possible; and pursuant to Rule 87, the parties request waiver of Article 19 of the Rules and request that the Commission issue its decision without prior distribution of a proposed decision of the Administrative Law Judge. The foregoing waiver request is subject to the condition that the Administrative Law Judge's Proposed Decision is available to the parties at least five days before the Commission Conference at which it is to be acted on (or such shorter time agreed to by the parties) and adopted the Agreement contained herein without change.

CONCLUSION

The parties agree that CPN and ALLTEL are desirous of consummating the proposed acquisition prior to December 31, 1988, and, therefore, the parties jointly request that the Commission issue its decision as soon as possible in December.

This Agreement requests that the authorization sought in the Application be granted, so long as the conditions set forth in Appendix I are adopted. The parties agree that, as described herein, such authorization is in the public interest and will benefit CPN ratepayers, employees and the communities CPN serves, and is fair to CPN's investors.

For all the foregoing reasons, the undersigned parties respectfully request the Commission to grant these Motions and adopt the Settlement Agreement and Stipulation contained herein.

Respectfully submitted,

Party	By	Dated
DIVISION OF RATEPAYER ADVOCATES	Kathleen C Maloney	November 15, 1988
CP NATIONAL CORPORATION	Robert J. Gloistein	November 15, 1988
ALLTEL CORPORATION	Robert J. Gloistein	November 15, 1988

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Appendix I

DRA's Proposed Conditions for Approving CPN's Application
A.88-09-005

1. ALLTEL shall ensure that the Commission has access to books and records of ALLTEL, the holding company and each of CPN's affiliates consistent with the requirements of Public Utilities Code Section 314. ALLTEL is placed on notice that the Commission will interpret Section 314 broadly as it applies to transactions between CPN and the holding company or its affiliates and subsidiaries in fulfilling its regulatory responsibilities as carried out by the Commission, its staff and its authorized agents. All information provided to the Commission shall be subject to General Order No. 66-C. Administratively, requests for such books and records made by the Commission, its staff or its authorized agents shall be deemed presumptively valid, material and relevant. Any objections to such requests shall be timely raised before the administrative law judge or assigned commissioner in the proceeding in which such objections arise. In order to sustain an objection to such a request, respondents shall have the burden of showing that the request is not reasonably related to any issue properly before the Commission and, further, is not reasonably calculated to result in the discovery of admissible evidence in the proceeding. If ALLTEL and CPN are required to provide information required by this condition, which information ALLTEL and CPN contend is confidential and relating to non-regulated affiliates, then ALLTEL or CPN may file a motion with the Commission for a protective order to insure that such information is not disclosed unless the law requires such disclosure.

2. ALLTEL and each of its subsidiaries shall keep their books in a manner consistent with generally accepted accounting principles and, where feasible, consistent with Uniform System of Accounts.

3. ALLTEL, and each of its subsidiaries shall employ accounting and other procedures and controls related to cost allocations and transfer pricing to ensure and facilitate full review by the Commission and to protect against cross-subsidization of nonutility and non-California utility activities by CPN California utility customers.

4. The officers and employees of ALLTEL company and its subsidiaries shall appear and testify in Commission prodeedings, as necessary or required.

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5. CPN shall furnish the Commission with:

a. Annual statements concerning the nature of intercompany transactions, recorded results of operations, and a description of the basis upon which cost allocations and transfer pricing have been established in these transactions; and

b. All periodic reports filed by the holding company with the Securities and Exchange Commission.

6. The capital requirements of CPN's California utility operations, as determined to be necessary to meet its utility obligation to serve, and preserve quality of service, shall be given priority by management.

7. CPN shall maintain a balanced capital structure for California ratemaking purposes consistent with that determined to be reasonable by the Commission.

8. CPN shall not guarantee the notes, debentures, debt obligations, or other securities of its parent holding company or any of its subsidiaries without first obtaining the written consent of this Commission.

9. CPN shall not make any distribution to ALLTEL that will reduce its common equity capital below 45 percent of total CPN capital without Commission approval. The Commission, CPN, and ALLTEL may reexamine this minimum common equity percentage as financial conditions change and may adjust it.

10. CPN shall avoid a diversion of employees to its parent holding company or any of the holding company's utility or nonutility subsidiaries that would adversely affect the quality of service.

11. CPN shall notify the Commission in writing within thirty (30) days prior to any transfer to the holding company or its utility or nonutility affiliates of any utility asset or property which is included in California rate base and has a fair market value exceeding $100,000, whether or not considered by the utility to be necessary or useful in the performance of its public utility obligations.

12. Market, technological, or similar data transferred, directly or indirectly, from CPN to either a non-California utility or nonutility affiliate shall be transfered in a manner such that the utility is compensated and that ratepayers are indifferent to the transaction.

13. CPN shall not record any costs of the acquisition, including, but not limited to, charges for payments to be made by virtue of change of control clauses, additional incentive plan awards by virtue of change of control provisions, and costs of the key employee retention plan, in California utility accounts. CPN shall furnish to the Division of Ratepayer Advocates a schedule detailing all acquisition costs and associated accounting entries within 180 day of the closing of the acquisition.

14. CPN shall not deviate from its existing schedule for completing installation of digital switching equipment in Colusa County. Specifically, CPN shall complete installation of digital switching equipment by year-end 1989 at the exchanges of Williams and Arbuckle. CPN shall complete installation of digital switching equipment in the remainder of its exchanges in the County of Colusa by year-end 1990. In addition, CPN shall maintain its Improved Mobile Telephone Service (IMTS) offering until otherwise authorized by the Commission. The acquiring company ALLTEL shall commit to the above capital program and schedule, and to the continued availability of IMTS to CPN's California customers.

-III-

(END OF APPENDIX A)