

CACD/DML/wyt

ORIGINAL

Decision 89 02 062 FEB 24 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
Calnev Pipe Line Company for Approval)
of Issuance of \$25 Million in Long)
Term Debt.)

Application No. 88-12-036
(Filed December 20, 1988)

O P I N I O N

SUMMARY

Calnev Pipe Line Company (Calnev), pursuant to Sections 816, 817, and 818 of the California Public Utilities Code, (PU Code) seeks Commission approval to issue \$25 million in long-term debt in this application. Calnev owns and operates the Calnev Pipe Line which is a 583-mile common carrier pipeline consisting of two parallel lines transporting petroleum products between Colton, California and Las Vegas, Nevada. Less than 10% of Calnev's revenues are derived from intrastate commerce in California. In addition to the Calnev Pipe Line, Calnev also owns and operates four product terminals primarily to serve the Calnev Pipe Line.

Notice of the filing of the application appeared in the Commission's Daily Calendar of December 2, 1988. No protests to the application have been filed. The application states that there will be no changes in the tariffs charged by Calnev or in the operations or services offered by Calnev resulting from the approval of this indebtedness.

We have reviewed the application, the reasons advanced for the \$25 million long-term indebtedness proposed by Calnev and other supporting data and conclude that granting this application will not be adverse to the public interest.

DISCUSSION

Calnev proposes to incur long-term indebtedness in the amount of \$25 million for several reasons. The proposed long-term indebtedness provides the reorganization of Calnev's capitalization following its stock acquisition by GATX Pipe Line Company (GATX). GATX is a wholly-owned subsidiary of GATX Corporation and bought Calnev from the Union Pacific Pipeline Company effective October 31, 1988. GATX will establish an independent credit record for Calnev's use in planning and financing future capital expenditures. Second, it will reimburse Calnev's treasury for amounts previously expended from income for acquisition of property and construction and improvement of facilities.^{1/} This reimbursement is appropriate at this time in light of the reorganization of Calnev's capital structure upon the acquisition of its stock.^{2/}

In Resolution No. F-616, dated October 1, 1986, the Commission states: "Debt issues for which competitive bidding is not viable or available are exempt." Calnev requests such an exemption on the basis stated in the resolution.

The application seeks approval for issuance by Calnev of \$25 million in unsecured notes. Calnev and its financial advisors determined that competitive bidding is impractical and not available for the proposed indebtedness. Instead, inquiries regarding the proposed debt issuance were sent to approximately 10

^{1/} Exhibit D to the application shows capital expenditures from 1979 to 1988 which were financed internally by Calnev.

^{2/} It should also be noted that Calnev, as an interstate oil pipeline, is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). Calnev alleges that it is desirable that Calnev have a significant level of debt in its capital structure. The \$25 million proposed indebtedness is alleged by Calnev to achieve a capital structure more appropriate to an interstate pipeline.

lenders. Each lender was given a range of incremental amounts, maturity dates and interest rate targets acceptable to Calnev. The responses were analyzed and compared to each other which resulted in identification of four participating lenders.

In the opinion of Calnev and its financial advisors, the commitments obtained from the four lenders represent the most competitive and lowest cost arrangement for the proposed indebtedness.

Capital Structure.

Exhibit B, attached to the Application included a Balance Sheet for Calnev dated October 31, 1988. It showed the following:

ASSETS	
Current Assets	\$ 2,558,000
Property Plant & Equipment	49,615,000
Accumulated Depreciation	(10,573,000)
Other Assets	<u>11,000</u>
TOTAL ASSETS	\$33,613,000
LIABILITY & EQUITY	
Current Liabilities	\$ 1,060,000
Deferred Taxes	<u>10,446,000</u>
TOTAL LIABILITIES	\$11,506,000
Common Stock	\$ 1,000,000
Retained Earnings	<u>21,107,000</u>
TOTAL EQUITY	\$22,107,000
TOTAL LIABILITY & EQUITY	\$33,613,000.

Calnev alleges in its application that its interest rate would be either 10.07% or 10.50%, depending upon when any authority is granted. At the higher rate, the interest expense would be \$2,625,000 per annum, or \$218,715 per month. In Exhibit B, Calnev shows a monthly net income of \$1,010,000. This would provide 4.6 times interest coverage before adjusting for the tax deduction on the interest. Calnev also has 4.6 times coverage for the nine months ending October 31, 1988.

The issuance of \$25,000,000 in debt would in fact result in a negative equity position on a ratemaking basis, before any provision for current and future earnings. Calnev does have the revenues to support this debt and would appear to be able to reestablish a positive equity position fairly quickly. Calnev should also be able to refund the debt out of earnings reducing its interest burden over the life of the debt, which Calnev proposes would be 10 years.

A Liability & Equity structure after the issuance of the debt would, on a pro forma basis, appear as follows:

Pro Forma LIABILITY & EQUITY	
Current Liabilities	\$ 1,060,000
Long Term Debt	25,000,000
Deferred Taxes	<u>10,446,000</u>
TOTAL LIABILITIES	\$36,506,000
Common Stock	\$ 1,000,000
Retained Earnings	<u>(3,893,000)</u>
TOTAL EQUITY	\$(2,893,000)
TOTAL LIABILITY & EQUITY	\$33,613,000.

Calnev, however, was purchased at arms-length by GATX from Union Pacific Pipeline Company for \$105,000,000. Under generally accepted accounting principles the balance sheet for the purchased company could reflect the fair market value of the assets rather than the remaining book value and any excess would be recognized as an intangible asset, Goodwill. Calnev has not supported any fair market valuation of its assets to support \$105,000,000. It has included in Exhibit B to the Application a pro forma balance sheet as shown below:

Reorganization ASSETS	
Current Assets	\$ 2,558,000
Property Plant & Equipment	105,000,000
Accumulated Depreciation	-
Other Assets	<u>11,000</u>
TOTAL ASSETS	\$107,569,000

LIABILITY & EQUITY	
Current Liabilities	\$ 1,060,000
Long Term Debt	<u>25,000,000</u>
TOTAL LIABILITIES	\$26,060,000
Common Stock	\$ 1,000,000
Retained Earnings	21,107,000
Paid in Surplus	<u>59,402,000</u>
TOTAL EQUITY	\$81,509,000
TOTAL LIABILITY & EQUITY	\$107,569,000.

Commission Staff Review.

The Commission Advisory & Compliance Division (CACD) recommends approval of the debt issuance. If Calnev were not a petroleum pipeline carrier operating predominately outside of California, the CACD would not recommend approval of an application which resulted in a ratemaking capital structure with negative shareholder equity. Because of circumstances which are unique to this application the CACD recommends approval. First, the approval of the proposed indebtedness will not result in any changes in the rates charged by Calnev or in the operations or services offered by Calnev. Second, all of Calnev's shippers are large and sophisticated companies. All of these shippers were notified of this application and none filed a protest. Third, Calnev has made reasonable efforts to secure financing terms which are as favorable as possible for the utility. Finally, at existing rates Calnev will have adequate earnings to service the debt.

Calnev is placed on notice that the Commission, by this decision, does not find Calnev's capital structure resulting from approval of the proposed indebtedness is reasonable for ratemaking purposes. In future rate proceedings for Calnev the Commission may impute a more reasonable capital structure by excluding all or a portion of the debt authorized by this decision.

Calnev is further placed on notice that the Commission, by this decision does not find the resulting balance sheet valuation of utility property is reasonable for ratemaking purposes. Nor does the Commission depart from historical cost rate regulation for Calnev in this proceeding.

We concur with the CACD's recommendations.

Findings of Fact

1. Calnev Pipe Line Company ("Calnev") is a Delaware corporation qualified to do business in California, which provides predominantly interstate services as a pipeline common carrier of petroleum products between California and Nevada.

2. On December 20, 1988, Calnev filed Application No. 88-12-036 with the Commission seeking approval of issuance of \$25 million in long-term debt.

3. The issuance by Calnev of up to \$25 million in long-term debt under the terms stated in the application is reasonably required for a proper purpose and is not adverse to the public interest.

4. The money, property or labor to be procured or paid for by issuance by Calnev of one or more notes or other evidence of said indebtedness is reasonably required for the purposes specified in the application.

5. On December 19, 1988, Calnev mailed a notice describing its application to all persons or entities which have been intrastate customers of the Calnev Pipe Line within one year of the date of filing of the application.

6. Calnev's request for a waiver of the Competitive Bidding Rule is based on good cause.

7. Calnev shall pay a fee in the amount of \$18,500.00 pursuant to Section 1904(b) of the PU Code.

8. A public hearing is not necessary.

Conclusions of Law

1. A public hearing is not necessary to approve this application.
2. The proposed security issues are for lawful purposes pursuant to PU Code Sections 816, 817 and 818. Proceeds from the securities issues may not be charged to operating expenses or to income.
3. Calnev's request that its issuance of up to \$25 million in long-term debt should be exempted from Resolution F-616 should be granted.
4. There is no finding of the reasonableness for rate making purposes of the cost of the debt to be issued.

O R D E R

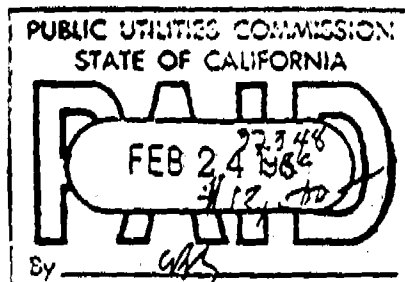
IT IS ORDERED that:

1. There will be no public hearing on this application.
2. The issuance by Calnev of up to \$25 million in long-term debt is approved.
3. Calnev's issuance of up to \$25 million in long-term debt is exempt from the requirements of the Commission's Competitive Bidding Rule and may be placed on a negotiated basis.
4. Calnev shall apply the proceeds of the indebtedness authorized for the purposes specified in the application.
5. Calnev shall pay a fee in the amount of \$18,500.00 set by PU Code Section 1904(b).
6. Authority granted by this order to issue up to \$25 million in long-term debt will become effective when Calnev pays the fee set by PU Code Section 1904(b).

6. The authority granted by this order to issue up to \$25 million in long-term debt will become effective when Calnev pays the fee set by PU Code Section 1904(b). In all other respects, this order is effective today.

Dated February 24, 1989, at San Francisco, California.

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



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

[Handwritten Signature]
Victor W. ... Executive Director

This Order is effective after Calnev pays the fee required
by PU Code Section 1904(b).

Dated FEB 24 1989 , at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHEANIAN
Commissioners

