

Decision 93266 NUL 7 1981

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CP National Corporation, a corpora-)
tion, for an order authorizing it to)
issue and sell up to \$48,000,000)
aggregate principal amount of Notes)
pursuant to a bank loan agreement.)

Application 60592
(Filed May 22, 1981)

O P I N I O N

CP National Corporation (CP National) requests authority, under Sections 816 through 818 and 823(c) of the Public Utilities Code, to issue and sell Notes up to \$48,000,000 aggregate principal amount under a bank loan agreement.

Notice of the filing of the application appeared on the Commission's Daily Calendar of May 28, 1981. No protests have been received.

CP National, a California corporation, engages in public utility operations in Oregon, California, Nevada, Utah, and Arizona. CP National provides electric, gas, telephone, and water services in the State of California.

For the calendar year 1980, CP National generated total operating revenues of \$109,906,000 and net income of \$6,715,000. The company reports it earned 24.7% of its total consolidated operating revenues in California.

CP National's Consolidated Balance Sheet as of March 31, 1981, shown as a part of Exhibit A attached to the application, is summarized as follows:

<u>Assets</u>	<u>Amounts</u>
Net Utility Plant	\$148,245,000
Net Nonutility Property	177,000
Current Assets	24,422,000
Deferred Charges	<u>4,222,000</u>
Total	<u>\$177,066,000</u>
 <u>Liabilities and Equity</u>	
Common Stock Equity	\$ 49,967,000
Preferred Stock	11,411,000
Long-Term Debt	72,649,000
Current Liabilities	32,801,000
Deferred Credits	<u>10,238,000</u>
Total	<u>\$177,066,000</u>

CP National proposes to acquire all of the issued and outstanding capital stock of Great Southwest Telephone Corporation (GSTC) for \$46,750,000 in cash. The acquisition will be accomplished by means of a merger of GSTC with and into another corporation which will be wholly owned by one or more wholly owned subsidiaries of CP National. GSTC is a holding company which provides telephone service through four operating subsidiaries to a total of approximately 40,000 telephones through 63 exchanges (with two toll centers) in the States of Arizona, New Mexico, Texas, and Utah.

The application states that CP National is in the process of disposing of electric and water properties which in the aggregate will produce an estimated \$35,500,000 in proceeds available for

reinvestment by CP National. CP National believes that the acquisition of GSTC provides an excellent opportunity for it to redeploy these funds within its regulated sphere of operations and at the same time significantly increase its commitment to telephone utility business. CP National believes that the telephone industry, in general, and GSTC in particular, will provide it with a greater opportunity for growth and profitability, increased financial strength, and improved marketability of its securities, all of which will benefit CP National, other public utility operations, and its customers.

In order to provide funds on an interim basis with which to pay the purchase price and other costs of the acquisition, CP National proposes to enter into a loan agreement with Bank of America National Trust and Savings Association (BoFA) and Wells Fargo Bank, N.A. The loan agreement with the banks provides for notes in the aggregate amount of up to \$48,000,000. Although CP National expects to borrow approximately \$47,500,000 and has prepared its exhibits on this basis, it is seeking authority for the higher amount to cover any unforeseen contingencies. The notes will mature one year after the closing of the acquisition, but no later than December 31, 1982. Prior to maturity, CP National may negotiate with the banks for an extension of the maturity beyond one year, should circumstances warrant. The loan will be secured by a pledge of the capital stock of GSTC acquired by

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CP National and will require that the proceeds of the sales of certain utility properties be applied to retirement of principal of the bank notes. The notes will bear interest payable quarterly at a rate equal to 1/4% above the BofA prime rate or, if CP National so elects, at a rate equal to 3/4% above the London interbank offered rate. CP National will pay fees to the banks aggregating \$37,500, plus a commitment fee equal to 3/8% per annum on the unused commitment commencing on March 17, 1981, the date on which GSTC accepted CP National's acquisition offer. Under the terms of the acquisition agreement, it is anticipated that the closing of the acquisition will take place on or before September 1, 1981.

Applicant is in the process of disposing of its public utility electric properties located in the States of Utah and Arizona under an agreement entered into on April 28, 1980 with Utah Power & Light Company. On conclusion of this sale, expected to be no later than mid-1982, CP National anticipates that it will receive approximately \$27,400,000 in proceeds available for retirement of the proposed bank debt. CP National is also in the process of disposing of its electric and water properties located in Winnemucca and Elko, Nevada, under an agreement entered into on January 29, 1981 with Sierra Pacific Power Company. On conclusion of this sale, expected to be on or about December 31, 1981, CP National will receive approximately \$8,100,000 in proceeds available for retirement of the proposed bank debt.

After disposition of the foregoing properties, CP National would have approximately \$12,000,000 of bank debt attributable to the GSTC acquisition still outstanding, which it proposes to repay from the proceeds of future long-term financings.

CP National attached to the application as Exhibit C, is a detailed description of the history and current operations of GSTC. GSTC, with principal executive offices at Grandview, Texas, is a telephone holding company incorporated on December 2, 1969 to serve as the vehicle to consolidate control of certain telephone operating companies.

In 1957, Texas-Midland Telephone Company (TMTC) was incorporated to purchase two small telephone exchanges south of Fort Worth, Texas. By means of 4 additional acquisitions from 1957 to 1960, TMTC accumulated 17 exchanges in the area serving 10,196 telephones as of September 30, 1980.

Trinity Valley Telephone Company (TVTC) was incorporated in 1961 and began operations on January 1, 1962 with the purchase of Chambers County Telephone Company. TVTC operates a toll center and serves 7,311 telephones through 7 exchanges between Houston and Beaumont in Chambers County, Texas.

Telephone Service Company (TSC) located at Grandview, Texas was organized in 1962 to provide accounting, engineering, and other staff services to the foregoing operating companies.

Navajo Communications Company (NCC) was incorporated in 1969 as a wholly owned subsidiary of GSTC and on August 1, 1970 acquired from the U.S. Bureau of Indian Affairs the communications system serving the Navajo Indian Reservation (Reservation) and its related areas totaling some 27,000 square miles with currently 37 exchanges, a center, and some 19,503 telephones in Arizona, New Mexico, and Utah.

On December 17, 1971, GSTC acquired TMTC, TVTC, and TSC through an exchange of stock. On December 31, 1975, GSTC acquired Romain Telephone Company (RTC) with 2 exchanges and 1,550 telephones serving the small town of Plains near Lubbock in west Texas. During 1976, GSTC organized NCC Systems, Inc. (NCCSI) which provides and services two-way radio equipment on the Reservation. NCCSI also holds franchises to provide cable television services on the Reservation and has obtained a cross-ownership waiver and Section 214 facilities construction approval from the Federal Communications Commission. The consolidated company at December 31, 1980 served approximately 40,000 telephones through 63 exchanges and in terms of 1980 gross revenues ranked as the 19th largest independent telephone company in the United States.

On December 31, 1980, the Consolidated Balance Sheet of GSTC showed the following:

<u>Assets</u>	<u>Amounts</u>
Net Utility Plant	\$ 58,128,211
Excess of Cost Over Net Assets Acquired	304,802
Current Assets	4,221,940
Deferred Changes	<u>821,133</u>
Total	<u>\$ 63,476,086</u>
 <u>Liabilities and Equity</u>	
Common Stock Equity	\$ 18,772,062
Long-Term Debt	26,896,606
Current Liabilities	8,118,493
Deferred Credits	<u>9,688,925</u>
Total	<u>\$ 63,476,086</u>

CP National's consolidated capital ratios as of March 31, 1981, recorded and as adjusted to give effect to the transactions described in the application, are shown on the following table taken from Exhibit G to the application:

	<u>March 31, 1981</u>	<u>Pro Forma</u>
Long-Term Debt	54.2%	62.5%
Preferred/Preference Stock	8.5	5.8
Common Equity	<u>37.3</u>	<u>31.7</u>
Total	100.0%	100.0%

CP National has also supplied the Revenue Requirements Division with data which estimates that, through future sales of common stock and long-term debt, together with reinvested earnings, its year-end consolidated capital ratios would change as follows:

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Common Stock Equity	31.8%	35.3%	36.0%	37.3%
Preferred/Preference Stock	5.7	5.3	4.8	4.3
Long-Term Debt	<u>62.5</u>	<u>59.4</u>	<u>59.2</u>	<u>58.4</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

In supplemental data supplied by CP National, it pointed out that the foregoing ratios are significantly affected by the inclusion of the separate indebtedness of its operating telephone subsidiaries in the consolidated figures it is required to use for financial statement presentation. Much of the operating telephone companies' debt is comprised of Rural Electrification Administration borrowings which typically allow higher debt ratios and provide interest

rates from 2% to 8%. The following table shows parent company only ratios for the periods presented above:

	<u>March 31,</u> <u>1981</u>	<u>Pro</u> <u>Forma</u>	<u>December 31,</u>			
			<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Common Stock Equity	40.0%	38.1%	38.0%	41.2%	40.2%	39.5%
Preferred/Preference Stock	9.2	6.9	7.1	6.4	5.8	5.3
Long-Term Debt	<u>50.8</u>	<u>55.0</u>	<u>54.9</u>	<u>52.4</u>	<u>54.0</u>	<u>55.2</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The Commission's Revenue Requirements Division has reviewed CP National's request to issue and sell the Notes to acquire the business and assets of GSTC. The Division has concluded the proposed acquisition is compatible with CP National's present operations and considers the request to be reasonable and not adverse to the public interest.

Findings of Fact

1. CP National, a California corporation, operates under the jurisdiction of this Commission.
2. The proposed issuance of the Notes would be for a proper purpose and would not be adverse to the public interest.
3. The proposed acquisition is reasonable and not adverse to the public interest.
4. The money, property, or labor to be procured or paid for by the Notes is reasonably required for the purpose specified, which purpose is not, in whole or in part, chargeable to operating expenses or to income.

5. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The application should be granted to the extent set forth in the order which follows.

The number of shares outstanding, the total par (stated) value of the shares, and the dividends paid do not determine allowable return on plant investment. This authorization is not a finding of the value of the utility's stock or property, nor does it indicate the amounts to be included in ratesetting proceedings.

CP National is placed on notice that the Revenue Requirements Division will review, in future rate proceedings, the effect of the proposed acquisition of GSTC and the issuance of debt on CP National's Capital structure. This review will be made in order to insure that California ratepayers will not be burdened by the proposed acquisition and debt issue.

CP National requests that the order be effective on the date of signature in order for it to conclude its acquisition of GSTC as expeditiously as possible.

O R D E R

IT IS ORDERED that:

1. CP National Corporation, on or after the effective date of this order may issue, sell, and deliver up to \$48,000,000 aggregate principal amount of Notes and Notes refunding, renewing, or extending such Notes, in accordance with the terms and conditions set forth in the application.

2. CP National Corporation shall apply the net proceeds from the sale of its Notes to effect the acquisition of the business and assets of Great Southwest Telephone Corporation in the manner set forth in the application.

3. CP National Corporation shall file the reports required by General Order Series 24.

4. The authority granted by this order to issue Notes, under a bank loan agreement for the purchase of Great Southwest Telephone Corporation, will become effective when CP National Corporation pays \$11,928, the fee set by Sections 1904.1 and 1904.2 of the Public Utilities Code.

Dated JUL 7 1981 , at San Francisco, California.

 John E. Bryan
President

 Richard D. Gravelle
 Richard D. Gravelle

 Richard D. Gravelle
Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

