

ORIGINAL

Decision 93429 AUG 18 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of CP NATIONAL CORPORATION, a)
California corporation, for an)
order authorizing it to issue bank)
notes.)
_____)

Application 60727
(Filed July 10, 1981)

O P I N I O N

CP National Corporation (CP National) requests authority, under Public Utilities (PU) Code Sections 816 through 831, to increase its short-term debt authority from \$20,000,000 up to \$25,000,000, an increase of \$5,000,000 over that authorized by Decision (D.) 92025, dated July 15, 1980 in Application (A.) 59709.

Notice of the filing of the application appeared on the Commission's Daily Calendar on July 14, 1981. No protests have been received.

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

Based on its annual report to stockholders for the calendar year ended December 31, 1980, CP National generated total consolidated operating revenues of \$109,906,000 and net income of

\$6,715,000. For the three months ended March 31, 1981, CP National reports in its Consolidated Statements of Income, attached to the application as part of Exhibit B, it generated total operating revenue of \$34,133,000 and net income of \$2,096,000. CP National states that 24.7% of its total consolidated operating revenue was earned in California.

CP National's Consolidated Balance Sheet as of March 31, 1981, also shown as part of Exhibit B, 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 | \$177,066,000 |
| <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 | \$177,066,000 |

CP National seeks authority to issue \$5,000,000 of additional bank notes to be used to raise funds for the short-term financing of CP National's utility construction program. By D.92025, dated July 15, 1980 in A.59709, the Commission authorized CP National to "issue, sell, and deliver not exceeding \$20,000,000

aggregate principal amount, including that allowable under Section 823(c) of the PU Code, promissory notes and notes refunding, renewing, and extending these notes, pursuant to the line of credit agreements to be negotiated as detailed in the application."

CP National has requested the additional authorization (a) in order to provide sufficient funds for its increased utility construction program and (b) in order to provide itself sufficient flexibility in the timing and amount of its permanent financing arrangements.

The exact terms of the credit agreement for the \$5,000,000 of additional bank notes are not known at this time. CP National expects that this agreement, as well as presently authorized bank credit agreements, will be extended, renewed, or replaced with similar credit arrangements for successive periods beyond their termination dates, with modifications as market conditions warrant in order to achieve the lowest interest rate available to CP National. Accordingly, CP National is still in a position to continue its bank financing of construction and may extend some notes beyond 12 months from the date of original issuance. CP National anticipates that it will continue to have outstanding, from time to time, bank debt in excess of 5% of the par value of its capitalization.

In order to have adequate flexibility with respect to the timing, amount, and ultimate maturity of its interim bank financing arrangements, as well as its permanent financing arrangements, CP National requests that the Commission increase its authority to issue bank notes under bank lines of credit, and any renewals, extensions, or replacements from \$20,000,000 to \$25,000,000. The principal amount of these notes would include the amount of notes which CP National would be entitled to have outstanding from time to time under PU Code Section 823(c). Further, these notes would be in addition to the \$48,000,000 in bank notes authorized by D.93266, dated July 7, 1981 in A.60592 for the acquisition and merger with Great Southwest Telephone Corporation. CP National requests that the Commission's authorization remain in effect through July 1, 1983, as specified in D.92025 and cover all renewals, extensions, and replacements of bank notes, subject to CP National's furnishing the Commission copies of the definitive credit agreements and written notice of any change in borrowing terms.

PU Code Section 823(c) requires public utilities, as defined in Section 201(e) of the Federal Power Act (29 Stat. 847, 16 U.S.C. 824), to obtain the consent of this Commission to issue notes payable at not more than 12 months from the date of issuance if the

total of the notes exceed 5% of the par value of other securities. As of December 31, 1980, the amount of notes which could be issued by CP National under Section 823(c) was \$4,265,650. The aggregate \$25,000,000 principal of bank notes would exceed the amount authorized.

CP National's consolidated capital ratios recorded on March 31, 1981 adjusted to December 31, 1981, to give pro forma effect to:

1. The proposed increase in short-term debt authority from \$20,000,000 to \$25,000,000, an additional \$5,000,000 in short-term promissory bank notes;
2. The issuance and sale of \$906,000 long-term promissory notes and the sale of 30,000 shares of Common Stock, \$5 par value, for the net proceeds of \$416,000 for the acquisition of RAI Public Utilities Consultants, Inc (RAI) (D.92941, dated April 21, 1981 in A.60261);
3. The issuance of \$47,500,000 in short-term debt for the acquisition of Great Southwest Telephone Corporation (GSTC) and the application of \$35,500,000 aggregate proceeds from the sales of utility property in Utah, Arizona, and Nevada to the GSTC purchase price and refinancing of the \$12,000,000 balance with long-term debt (D.93266, dated July 7, 1981 in A.60592);
4. The consolidation of \$22,897,000 of long-term debt on the books of GSTC;
5. The issuance of \$417,000 in short-term notes to finance the purchase of RAI and the repayment of \$7,617,000 of short-term notes prior to December 31, 1981;

6. The reduction of \$380,000 in Preferred Stock through current mandatory redemption;
7. The proposed sale in August 1981 of \$15,000,000 of debentures and a \$3,250,000 reduction in other long-term debt due to current maturities;
8. The proposed sale of 450,000 shares of Common Stock, \$5 par value, in December 1981 at the assumed price of \$19 per share to produce net proceeds of \$8,550,000; and
9. Estimated retained earnings of \$2,135,000 covering the period of April through December 1981

are as follows:

| | <u>March 31, 1981</u> | <u>Pro Forma</u> |
|------------------------------|-----------------------|------------------|
| Long-Term Debt ^{1/} | 50.8% | 61.9% |
| Short-Term Debt | 6.2 | .9 |
| Total Debt | <u>57.0</u> | <u>62.8</u> |
| Preferred/Preference Stock | 8.0 | 5.7 |
| Common Equity | 35.0 | 31.5 |
| Total | <u>100.0%</u> | <u>100.0%</u> |

^{1/} Includes \$9,308,000 of RAI long-term debt.

The foregoing ratios are significantly affected by the inclusion of the separate indebtedness of CP National's operating telephone subsidiaries in the consolidated figures the company 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 period presented above:

| | <u>March 31, 1981</u> | <u>Pro Forma</u> |
|----------------------------|-----------------------|------------------|
| Long-Term Debt | 47.4% | 54.4% |
| Short-Term Debt | 6.7 | 1.1 |
| Total Debt | <u>54.1</u> | <u>55.5</u> |
| Preferred/Preference Stock | 8.5 | 6.8 |
| Common Equity | 37.4 | 37.7 |
| Total | <u>100.0%</u> | <u>100.0%</u> |

The Revenue Requirements Division is concerned with CP National's high debt ratio which on a consolidated pro forma basis will approximate 62%. In the past, the Revenue Requirements Division and the Commission have stressed the importance of utilities to maintain a balanced capital structure in order to be financially sound, to maintain financial flexibility, and to be able to attract capital at reasonable rates. The Division believes that additional amounts of equity capital are necessary to balance CP National's capital structure. This should be given primary attention in CP National's future financing requirements.

.. CP National is engaged in an extensive construction program and estimates that the gross expenditures required for this construction program for the years 1981 and 1982 will approximate \$32,521,000 and \$17,963,000, respectively. Exhibit C to the

application, sets forth CP National's utility construction program, estimated as of July 1, 1981, as follows:

| | <u>1981</u> | <u>1982</u> |
|-------------------------|----------------------------|----------------------------|
| Electric | \$12,049,000 ^{1/} | \$ 5,026,000 ^{2/} |
| Gas | 3,258,000 | 3,086,000 |
| Telephone ^{3/} | 8,955,000 ^{1/} | 9,851,000 ^{2/} |
| Water | 815,000 ^{1/} | 0 ^{2/} |
| Common Plant | 3,444,000 | 0 |
| Total | \$28,521,000 | \$17,963,000 |

1/ Includes \$2,183,000 which is subject to reimbursement from Sierra Pacific Power Company.

2/ Assumes disposition of Utah/Arizona electric, Nevada electric and water, and Susanville water.

3/ Excludes Tuolumne Telephone Co. and GSTC.

CP National estimated that internally generated funds will provide approximately 56% of the 1981 capital expenditures. Thus, CP National anticipates that the bank notes will be necessary to help it meet its requirement for external financing on an interim basis.

The Commission's Revenue Requirements Division has analyzed CP National's cash requirement forecast and has concluded that the issuance of \$5,000,000 additional bank notes is necessary to help CP National meet forecasted cash requirements. The Division has also reviewed CP National's 1981-1982 construction program and has concluded that the estimated construction expenditures are

necessary. The Division reserves the right to reconsider the reasonableness of any construction expenditures in future rate proceedings.

Findings of Fact

1. CP National, a California corporation, operates under the jurisdiction of this Commission.

2. The proposed issuance of additional bank notes would be for proper purposes.

3. CP National has need for external funds for the purposes set forth in the application.

4. The proposed additional bank notes are not adverse to the public interest.

5. The time limit of July 1, 1983, within which the proposed additional bank notes can be issued, is reasonable and in the public interest.

6. The money, property, or labor to be procured or paid for by the bank notes is reasonably required for the purposes specified in the application.

7. 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 proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

ORDER

IT IS ORDERED that:

1. CP National Corporation, on or after the effective date of this order, may issue, sell, and deliver up to \$25,000,000 aggregate principal amount, including that allowable under PU Code Section 823(c), promissory notes and notes refunding, renewing, and extending these notes, under line of credit agreements to be negotiated as detailed in this application and A.59709. This authority shall remain in effect through July 1, 1983 and will cover renewals, extensions, or replacements of these notes. This authority shall be in addition to the authority granted by D.93266, dated July 7, 1981 in A.60592.

2. CP National Corporation shall apply the net proceeds from the bank notes for the purposes set forth in the application.

3. Within ten business days after the execution of any line of credit agreement, or any renewal, extension, replacement, or modification of them, CP National Corporation shall file a true copy of the credit agreement with the Commission.

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

5. This order shall be effective upon payment of the \$617.50 fee prescribed by PU Code Sections 1904.1 and 1904.2.

Dated AUG 18 1981, at San Francisco, California.

John E. Bryson
President

Richard D. Shady

Thomas W. ...

Walter ...

Priscilla C. Mew
Commissioners

