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ORIGINAL

Decision 93496 SEP 1 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 Debentures in the principal amount of up to $20,000,000.	Application 60777 (Filed August 3, 1981; amended August 5, 1981)

O P I N I O N

CP National Corporation (CP National) requests authority, under Sections 861 through 830 of the Public Utilities (PU) Code, for the following:

1. To issue and sell up to $20,000,000 aggregate principal amount of Debentures, due in 1996, on a negotiated basis to the public through a underwriter;

2. To execute and deliver a First Mortgage Indenture (Indenture); and

3. To be exempted from the Commission's competitive bidding rule.

Notice of the filing of the application and the amendment appeared on the Commission's Daily Calendars of August 6 and August 10, 1981, respectively. No protests have been received.

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

For the calendar year 1980, CP National generated total consolidated revenues of $109,906,000 and net income of $6,715,000. CP National reports by letter dated August 14, 1981 that its total consolidated revenues for the 12 months ended June 30, 1981 were $117,462,000 and net income of $6,914,000. The company reports it earned 24.7% of its total consolidated operating revenues in California.

CP National's Consolidated Balance Sheet as of June 30, 1981, shown as part of Exhibit A attached to the application, is summarized as follows:

Assets	Amount
Net Utility Plant	$155,502,000
Net Nonutility Property	428,000
Current Assets	21,344,000
Deferred Charges	5,511,000
Total	$182,785,000
Liabilities and Equity	
Common Stock Equity	$ 50,626,000
Preferred Stock	11,411,000
Long-Term Debt	73,094,000
Current Liabilities	36,555,000
Deferred Credits	11,099,000
Total	$182,785,000

CP National proposes to issue and sell up to $20,000,000 of its Debentures on a negotiated basis through Edward D. Jones & Co. (Underwriter) who would agree to sell the Debentures to the public on a firm-commitment basis at the par value. Interest would be payable from the date of delivery of the Debentures.

CP National proposes to pay the Underwriter a commission of 5% of the aggregate par value of the Debentures and would expect to incur additional expenses of up to $200,000 in connection with the sale. Net proceeds to CP National equal to 95% of par, with a 15-3/4% nominal interest rate, produces an effective cost of money between 16.68% and 16.79% depending on the average life of the issue as shown in Exhibit C attached to the application. The Underwriter offers a specialized distribution system of 350 small retail branch offices. It is CP National's opinion that the Underwriter can offer an effective cost of money less than alternate methods of distribution available to CP National.

Although the terms of the proposed Debentures might be altered in response to any change in market conditions at the time of sale, it is intended that the Debentures would have a 15-year maturity, bear interest at a rate between 15-1/4% and 15-3/4% per annum; payable quarterly or, at the option of a holder of $8,000 or more, monthly; would be noncallable for 5 years; callable in 1986 at 107%; and at 1% less each year thereafter to maturity. The Debentures would be redeemable at par at the option of the holder (a) commencing in September, 1983 with an annual maximum principal amount of $25,000 per holder and $750,000 in the aggregate or (b) at any time within 60 days after request by a personal representative or surviving joint tenant of a deceased holder, subject only to the $750,000 annual limitation.

CP National states in its application that it has thoroughly examined the long-term and medium-term debt market, as well as the market for other types of securities, and has concluded that the proposed Debenture sale is in the best interest of the company and its ratepayers. Based on CP National's review of current utility debt issue, interest rates shown in Exhibit B attached to the application for utilities rated BBB- to BBB+ by Standard and Poor's Corporation (SP) range from 15.73% to 17.96%. An interest rate of 15-1/4% to 15-3/4% for CP National appears favorable to CP National whose 10-3/8% Debentures have been rated by SP in the June, 1981 Bond Guide as BB+. In addition, CP National believes that the proposed Debentures will offer the company more favorable call premium provisions than those shown on Exhibit B.

The proposed form of CP National's Debenture Indenture would be similar in form to that shown as Exhibit C attached to A.58838 and the form of the proposed Underwriting Agreement would be similar to that attached CP National's attorney's letter of August 17, 1981.

The proceeds of the proposed Debentures will be used to repay short-term bank borrowings which presently bear interest at a rate of approximately 19-1/2%. CP National believes that the proposed financing will provide applicant with a significant interest savings.

CP National's consolidated capital ratios recorded on June 30, 1981 are adjusted to December 31, 1981 to give pro forma effect to:

1. The proposed issuance and sale of CP National's Debentures in the aggregate principal amount of $20,000,000 of which the company intends to sell $15,000,000 in September, 1981;

2. The 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 (Decision (D.)93429, dated August 18, 1981 in Application (A.)60777);

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 repayment of $16,400,000 of short-term notes prior to December 31, 1981;

6. The reduction in other long-term debt in the amount of $3,250,000 resulting from current maturities;

7. 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

8. Estimated retained earnings of $1,206,000 covering the period of July through December 1981.

are as follows:

	June 30, 1981	Pro Forma
Long-Term Debt 1/	47.7%	62.0%
Short-Term Debt	11.8	.9
Total Debt	59.5	62.9
Preferred/Preference Stock	7.5	5.9
Common Equity	33.0	31.2
Total	100.0%	100.0%

1/ Includes $9,629,000 of RAI Public Utilities Consultants, Inc. 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:

	June 30, 1981	Pro Forma
Long-Term Debt	44.0%	54.3%
Short-Term Debt	12.8	1.1
Total	56.8	55.4
Preferred/Preference Stock	8.0	7.2
Common Equity	35.2	37.4
Total	100.0%	100.0%

The Revenue Requirements Division is concerned with CP National's high debt ratio which on a consolidated pro forma basis will approximate 63%. 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 by CP National when analyzing future financing requirements. Our review of its financing proposals will heavily stress attention to this matter.

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 $17,693,000, respectively. Exhibit C to the A.60727 sets forth CP National's utility construction program, estimated as of July 1, 1981, as follows:

	1981	1982
Electric	$12,049,000 1/	$ 5,026,000 2/
Gas	3,258,000	3,086,000
Telephone 3/	8,955,000	9,851,000
Water	815,000	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 fom Sierra Pacific Power Company.

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

3/ Excludes Tuolumne Telephone Co. and GSTC.

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

After considering all alternatives, CP National has concluded that the proposed financing is the best course to follow. In order to implement the proposed financing and to take advantage of the unique terms offered by the Underwriter, CP National requests an exemption from the competitive bidding rule requirements and conditions set forth in D.91984, dated July 2, 1980 for San Diego Gas & Electric Company's in A.59633. We discussed the granting of exemptions from the competitive bidding rule, and we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule. We served notice that assertions regarding the volatility of the market, the flexibility provided by a negotiated sale, and the importance of maximizing the effectiveness of the underwriting group will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

We are frankly uncertain whether under current volatile conditions, unfavorable to the issuer of corporate debt, strict adherence to the competitive bidding rule would prove beneficial. Consequently, for this application only, we will authorize CP National to proceed on either a negotiated basis through an Underwriter or by competitive bidding according to CP National's estimation of where the most favorable opportunity lies.

Granting the authorization requested will give CP National the flexibility to borrow funds more quickly than might otherwise be available in the time frame necessary to complete a secured transaction. The requested authorization will also give CP National a broader base from which to attract additional kinds of lenders, some of whom lend funds only on an unsecured basis.

Because CP National intends to sell the proposed Debentures by private placement on terms which will be negotiated after the issuance of this decision and because of CP National's conclusion and belief that the Debentures will be sold at a cost as low, if not lower, than if the Debentures were to be sold at competitive bidding, we are of the opinion that applying the Commission's competitive bidding requirements and conditions set forth in D.91984 in this proceeding would not be in the best interest of CP National or its ratepayers. The rule would not operate to ensure that CP National's sale of the Debentures would be at the most favorable cost of money. However, in order not to preclude the competitive bid option, the Commission's Revenue Requirements Division has reviewed CP National's request and has concluded that an exemption from the Commission's competitive bidding rule should be granted and, alternatively, to grant authority to issue the Debentures under competitive bidding.

If CP National chooses to issue and sell its Debentures by means of a private placement through a negotiated underwriting, we place it on notice that in its next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized and may result in a disallowance of the interest expense if it is determined that the cost of money incurred was not the most prudent. We will also require CP National to provide us with a showing of why it believes that the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers. We will require this showing within a reasonable period of time after the issuance and sale of its Debentures.

The Commission's Revenue Requirements Division has analyzed CP National's cash requirement forecast and has concluded that the issuance of CP National's Debentures in the amount of $20,000,000 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 as a public utility under the jurisdiction of this Commission.

2. The proposed issuance and sale of CP National's Debentures on a negotiated basis to the public through an Underwriter or by competitive bidding would not be adverse to the public interest.

3. The issuance and sale of the Debentures should be exempted from the Commission's competitive bidding rule.

4. The execution and delivery of CP National's Indenture is not adverse to the public interest.

5. CP National has need for external funds for the purpose set forth in the application.

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

7. There is no known opposition to the application and no reasons 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 is required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order should be effective on the date of signature to enable CP National to issue its Debentures expeditiously.

O R D E R

IT IS ORDERED that:

1. CP National Corporation (CP National) may enter into an underwriting agreement and issue on a negotiated public placement, or by competitive bidding, its Debentures in the aggregate principal amount of up to $20,000,000 on or before December 31, 1981 with a term or terms not to exceed 30 years, and with the terms and conditions, interest rate or rates, and any redemption provisions as may be determined necessary or advisable in accordance with the application.

2. The proposed issuance on a negotiated public placement of the Debentures is exempted from the Commission's competitive bidding rule set forth in D.38614, dated January 15, 1946 as amended in Case 4761; alternatively, CP National may issue and sell its Debentures by means of a competitive offering.

3. CP National shall use the proceeds from the sale of its Debentures as set forth in the application.

4. As soon as available, CP National shall file, with the Commission, a conformed copy of its Underwriting Agreement and Indenture or instruments executed and delivered by it in connection with the sale of its Debentures.

5. Within 30 days after the proceeds from the public placement of the Debentures are available, CP National shall file, with the Commission, a letter reporting the amount of the debt issued, whether privately or competitively placed, and the use of the proceeds.

6. If the Debentures are sold by competitive bidding or by a negotiated public offering, as soon as available, CP National shall file, with the Commission, three copies of its final prospectus relating to the issuance of its Debentures.

7. If the Debentures are sold by a negotiated public offering, within 30 days after their issuance and sale, CP National shall file, with the Commission, a report setting forth the reason the company believes the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

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

9. This order shall be effective upon payment of the $5,946 fee set by Section 1904(b) of the PU Code.

Dated SEP 1 1981, at San Francisco, California.

President

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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