

ORIGINAL

Decision 93735 NOV 13 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)	Application 60946
order authorizing it to issue and)	(Filed September 29, 1981)
sell up to 500,000 shares of its)	
Common Stock, \$5 par value.)	

O P I N I O N

CP National Corporation (CP National) requests authority, under Public Utilities (PU) Code Sections 816 through 830, to issue and sell up to 500,000 shares of its Common Stock, \$5 par value.

Notice of the filing of the application appeared on the Commission's Daily Calendar of October 1, 1981. No protests have been received.

CP National, a California corporation, directly and through its subsidiaries, engages in public utility operations in Oregon, California, Nevada, Texas, Utah, New Mexico, 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's total consolidated revenues for the 12 months ended June 30, 1981 were \$117,462,000 and net income of \$6,915,000. 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:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$155,502,000
Net Nonutility Property	428,000
Current Assets	21,344,000
Deferred Charges	5,511,000
Total	<u>\$182,785,000</u>
 <u>Liabilities and Equity</u>	
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	<u>\$182,785,000</u>

CP National proposes to issue and sell up to 500,000 shares of its Common Stock, \$5 par value, in a public offering through a group of underwriters. CP National contemplates that the underwriters would purchase the stock at a price per share equal to the initial public offering price less an underwriters' discount which would be determined by agreement between CP National and the underwriters immediately prior to the public offering and which would be based in part on underwriters' discount for public offerings of common stock of issuers similar to CP National. The initial public offering price would be determined on the basis of reported price or quotations of CP National's common stock on the New York Stock Exchange immediately prior to the public offering.

CP National proposes to use the net proceeds from the sale of the common stock to reimburse its treasury for unreimbursed construction expenditures which, at June 30, 1981, aggregated \$22,931,000.

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

1. The proposed sale of 500,000 shares of Common Stock, \$5 par value, at the assumed price of \$19 per share to produce net proceeds of \$9,500,000;
2. The issuance and sale of CP National's 16-1/2% Debentures due 1996 in the aggregate principal amount of \$15,000,000 on September 21, 1981 (Decision (D.)93496 dated September 1, 1981 in Application (A.)60777);
3. 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 (D.93429 dated August 18, 1981 in A.60727);
4. The issuance of \$48,000,000 in short-term debt for the acquisition of Great Southwest Telephone Corporation (GSTC) and the application of \$36,000,000 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);
5. The consolidation of \$28,249,000 of long-term debt on the books of GSTC;
6. The repayment of \$16,400,000 of short-term notes prior to December 31, 1981;

7. The reduction in other long-term debt in the amount of \$3,250,000 resulting from current maturities;
8. The proposed sale of 35,000 shares of Common Stock, \$5 par value, in December 1981 to the Employee Stock Ownership Plan of GSTC at the assumed price of \$20 per share to produce net proceeds of \$700,000; and
9. Estimated retained earnings of \$1,500,000 covering the period of July through December 1981

are as follows:

	<u>June 30, 1981</u>	<u>Pro Forma</u>
Long-Term Debt ^{1/}	48.0%	60.4%
Short-Term Debt	11.7	.9
Total Debt	<u>59.7</u>	<u>61.3</u>
Preferred/Preference Stock	7.6	6.1
Common Equity	32.7	32.6
Total	<u>100.0%</u>	<u>100.0%</u>

^{1/} Includes \$9,628,000 of Tuolumne Telephone Company 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>June 30, 1981</u>	<u>Pro Forma</u>
Long-Term Debt	44.7%	54.1%
Short-Term Debt	12.5	1.0
Total	<u>57.2</u>	<u>55.1</u>
Preferred/Preference Stock	8.1	7.2
Common Equity	34.7	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 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 utility construction program and estimates that the gross expenditures required for this construction program for the years 1981 and 1982 will approximate \$25,689,000 and \$18,160,000, respectively, estimated as of September 1981 as follows:

	<u>1981</u>	<u>1982</u>
Electric	\$11,025,000 <u>1/</u>	\$ 5,026,000 <u>2/</u>
Gas	2,481,000	3,086,000
Telephone <u>3/</u>	8,882,000	9,851,000
Water	470,000	197,000 <u>2/</u>
Common Plant	2,831,000	0
Total	<u>\$25,689,000</u>	<u>\$18,160,000</u>

- 1/ Includes \$1,500,000 which is subject to reimbursement from Sierra Pacific Power Company.
- 2/ Assumes disposition of Utah/Arizona electric and Nevada electric and water.
- 3/ Excludes Tuolumne Telephone Co. and Great Southwest Telephone Corporation.

CP National estimates that internally generated funds will provide approximately 55% of the 1981 capital expenditures. Thus, CP National anticipates that the proceeds from common stock offering will be necessary to help it meet its requirement for external financing on a permanent basis.

The Commission's Revenue Requirements Division has analyzed CP National's cash requirement forecast and has concluded that the issuance and sale of up to 500,000 shares of CP National's common stock is necessary to help CP National meet forecasted cash

requirements. The Division has also reviewed CP National's 1981-82 construction program and has concluded that the program is necessary. The Division reserves the right to reconsider the reasonableness of any specific program and 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 up to 500,000 shares of CP National's common stock would not be adverse to the public interest.
3. CP National has need for external funds for the purpose set forth in the application.
4. The money, property, or labor to be procured or paid for by the proposed sale of common stock is reasonably required for the purpose specified in the application.
5. 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 sale of common stock is for a lawful purpose and the money, property, or labor to be obtained by it is required for this purpose. 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 the common stock expeditiously.

O R D E R

IT IS ORDERED that:

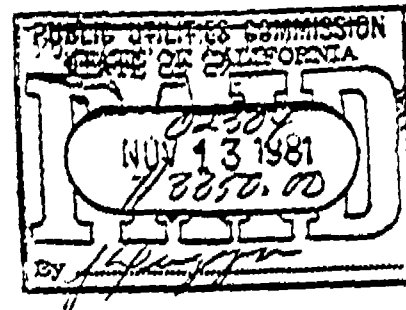
1. CP National Corporation (CP National), on or after the effective date of this order, may issue, sell, and deliver up to 500,000 shares of its Common Stock, \$5 par value, in accordance with the terms and conditions set forth in application.
2. CP National shall apply the net proceeds from the sale of the common stock to the purpose set forth in the application.
3. Promptly after CP National ascertains the underwriting commission and the price to be paid for the common stock, it shall notify the Commission of the terms and conditions of the sale in writing.
4. As soon as available, CP National shall file with the Commission three copies of its final prospectus relating to the common stock.

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

6. The authority granted by this order to issue stock will become effective when CP National pays \$3,350, the fee set by PU Code Sections 1904.1 and 1904.2. In all other respects, this order becomes effective 30 days from today.

Dated NOV 13 1981, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. CREW
Commissioners



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

Joseph E. Bodovitz
Joseph E. Bodovitz, Executive Director