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Decision 95-08-026 August 11, 1995

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of Citizens Utilities Company of California (CUC) and CP National Corporation (CP) for authority under Section 851 for CP to sell to CUC certain of its property in accordance with an Asset Purchase Agreement dated as of November 28, 1994.

ORIGINAL

OPINION

By this application, Citizens Utilities Company of California (CUC) and CP National Corporation (CP) jointly seek Commission authority, on an expedited ex parte basis, for CUC to acquire CP's California telephone operations in accordance with an Asset Exchange Agreement, dated November 28, 1994, and pursuant to Section 851 of the Public Utilities Code.

CUC, a California certificated public utility, provides telephone and water utility service in California. CUC's telephone operations, with its principal office located at Elk Grove, California, provides telephone service to approximately 857,000 customers in the communities of Elk Grove, Susanville, Ferndale, Alturas, Burney, Clarksburg-Courtland, Isleton, Meadowview, and Walnut Grove. A map depicting CUC's existing telephone exchanges is provided in Exhibit C to the application.

CUC is a wholly owned subsidiary of Citizens Utilities Company (Citizens), a Delaware corporation, which is a diversified utility company providing electric, telecommunications, gas, water, and wastewater services in 18 states.

CP, also a California certificated public utility, provides local exchange telephone service to approximately 13,800 customers in Colusa, Lassen, San Bernardino, and Plumas counties. CP is a wholly owned subsidiary of ALLTEL Corporation (ALLTEL), a

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Delaware corporation, which provides telephone services to approximately 1.6 million customers in 22 states.

Notice of this application appeared in the Commission's Daily Calendar of January 18, 1995. A protest to the application was filed by the Commission's Division of Ratepayer Advocates (DRA) on March 21, 1995. By its protest, DRA objected to Applicants' requested ex parte treatment of the application because DRA believed that the application was deficient in its discussion of regulatory issues related to the proposed corporate structure and customer rate impacts.

Applicants filed a May 12, 1995 joint response to DRA's protest to more fully detail their proposed transfer and express their intent to supplement the application with a new corporate structure for the telephone properties being transferred from CP to CUCC. The supplement was filed on June 15, 1995. Among other matters, the supplement identified the establishment of a new corporate entity of Citizens named Citizens Telecommunications Company of the Golden State (CTC-Golden State), a California corporation, to operate the properties being acquired from CP. CTC-Golden State, similar to CUCC, is a wholly owned subsidiary of Citizens. Upon the closing of the proposed transfer of telephone property from CP to CUCC, CUCC will immediately assign its interest in CP to CTC-Golden State. None of the telephone properties being acquired will become a part of CUCC.

Applicants also clarified another matter regarding their corporate structure. Pursuant to Decision 95-03-017 dated March 16, 1995, CUCC is separating its California telephone and water operations, with its telephone operations being placed under a new corporate entity named Citizens Telecommunications Company of California (CTC-California) and its water operations remaining under CUCC. A chart depicting the new corporate structure, including CTC-Golden State, is attached to this order as Appendix A.

The supplement further clarified that the proposed transaction will have no rate impact on CP's customers pending a general rate case application to be filed by December 31, 1995 pursuant to the Commission's IRD Decision (D.94-09-065) and contingent upon Pacific Bell exercising its pricing flexibility authority to change tariffed rates which have been concurred in by CP.

Subsequently, by letter of July 6, 1995, DRA noted that the supplemental filing was consistent with the modifications CTCC made in CTCC's request for authority to acquire Tuolumne Telephone Company (Application (A. 95-01-006) to satisfy a DRA protest identical to DRA's protest in this proceeding. Although the supplement resolves DRA's concerns, DRA has recommended that the same conditions imposed upon CTCC and Tuolumne in A.95-01-006 should also be imposed upon CTCC and CP National. We concur.

The proposed transaction has been entered into to conform with Citizen's long-term business objective of expanding Citizen's operating territory to meet the challenges of an increasingly competitive environment in small and medium-sized communities that it believes will experience above average population and job growth.

The proposed transaction also conforms with ALLTEL's long-term business strategy to consolidate its operations into states in which it owns a substantial number of access lines. Consistent with this strategy, ALLTEL seeks to divest itself of several operations in western states, including California, Arizona, Utah, Oregon, Nevada, and New Mexico.

The Agreement is one of several separate transactions in eight states in which ALLTEL has agreed to sell to Citizens the issued and outstanding stock of certain of its telephone operating companies, or, as in the case of this transaction, certain subsidiaries of ALLTEL have agreed to convey their assets to certain Citizens subsidiaries.

The Agreement provides for CP to convey to CUC its assets including telephone plants, contracts and leases, books and records, FCC licenses, other assets in effect or owned by CP and the unregulated business, as described in the Agreement. In exchange, CUC will purchase the assets at a price set forth in the Agreement. Upon the closing of the transaction, CUC will immediately assign its interest to CTC-Golden State. Ratepayers will not bear transaction cost associated with the underlying transfer in this proceeding. The Agreement is structured to be a seamless transaction transparent to the telephone customers. Such customers will not face unexpected changes in either charges, services provided, or quality of service. This is because CTC-Golden State will retain CP employees pursuant to an Employee Transfer Agreement and will adopt and provide telephone service pursuant to the tariffs for CP in effect at the time the transfer is completed.

Several support functions that CP currently receives primarily from Little Rock, Arkansas, will be handled by Citizens' Western Region Telephone Operations located in Elk Grove, California, and by Citizens' other administrative support operations in Dallas, Texas.

This application involves only a proposed change in control and operation of existing telecommunications facilities. No new construction is being proposed. Accordingly, there is no possibility that the transaction contemplated herein may have any significant effect on the environment. The application should be approved.

Findings of Fact

Notice of this application appeared in the Commission's Daily Calendar on January 18, 1995.

2. DRA filed a protest of the application.
3. Applicants' supplement to the application resolved the issues identified in DRA's protest.

5. It can be seen with certainty that the proposed transfer will not have an adverse impact on the environment.

6. Public convenience and necessity require the granting of this application to be effective on the date signed.

7. Upon consummation of the proposed transfer, CP will have no further need for its assigned corporate identification number.

Conclusion of Law

The application for transfer of California telephone property should be granted as provided in the following order.

This authority is not a finding of the value of the rights and property to be transferred.

O R D E R

1. On or after the effective date of this order, CP National is authorized to transfer and Citizens Utilities Company of California is authorized to acquire, subject to an immediate transfer, to CTC-Golden State, telephone public utility property as described in the asset assignment agreement appended to the application as Exhibit A and in accordance with the terms of the application and supplement to the application.

2. CTC-Golden State and CP shall jointly notify the Commission Advisory and Compliance Division (CACD) Director in writing of the actual transfer date as authorized herein and file tariffs under CTC-Golden State's name adopting CP's filed tariffs, within 10 days after the transfer. In addition, a true copy of the instrument of transfer shall be attached to the written notification.

3. CTC-Golden State and its affiliated companies which transact business with CTC-Golden State shall, upon Commission staff request, make all books and records available for review and

inspection. In the event such books and records are required for inspection by the Commission or its staff, Applicant shall either produce such records at the Commission's offices or at another location in California, or reimburse the Commission for the reasonable costs incurred in having the Commission staff travel out of State to the offices where the books and records are maintained.

4. The Corporate Identification Number assigned to CTC Golden State is U-1025-C which shall be included in the caption of all original filings with the Commission, and in the titles of other pleadings filed in existing cases.

5. CTC Golden State shall record the acquisition of CP at original cost in accordance with the Uniform System of Accounts for Telephone Companies.

6. As a condition of approval of transfer, CTC-Golden State shall obtain all records of the construction and fixed assets of CP. CTC-Golden State shall also obtain access from CP and make available to Commission staff for review in CTC-Golden State's pending general rate case CP's recorded operating revenue and expense data from 1991 to date of transfer.

7. The authority granted in Ordering Paragraph 1 shall expire if not exercised within 12 months after the effective date of this order.

8. CP shall file with the CACD Director within 90 days after the actual transfer of the telephone system to CTC-Golden State an annual report on its operations of the telephone system from the first day of the current year through date of transfer. In addition, a true copy of the instrument of transfer shall be attached to the written notification.

9. CTC-Golden State and its affiliated companies which transact business with CTC-Golden State shall, upon Commission staff request, make all books and records available for review and

9. Upon compliance with all of the conditions of this order, including the payment of all fees due under PU Code § 431 to the date of transfer, CP National Corporation shall stand relieved of its public utility obligations for the transferred telephone system, and its corporate identification No. U-11-C shall be revoked.

10. Application 95-01-007 is closed.

This order is effective today.

Dated August 11, 1995, at San Francisco, California.

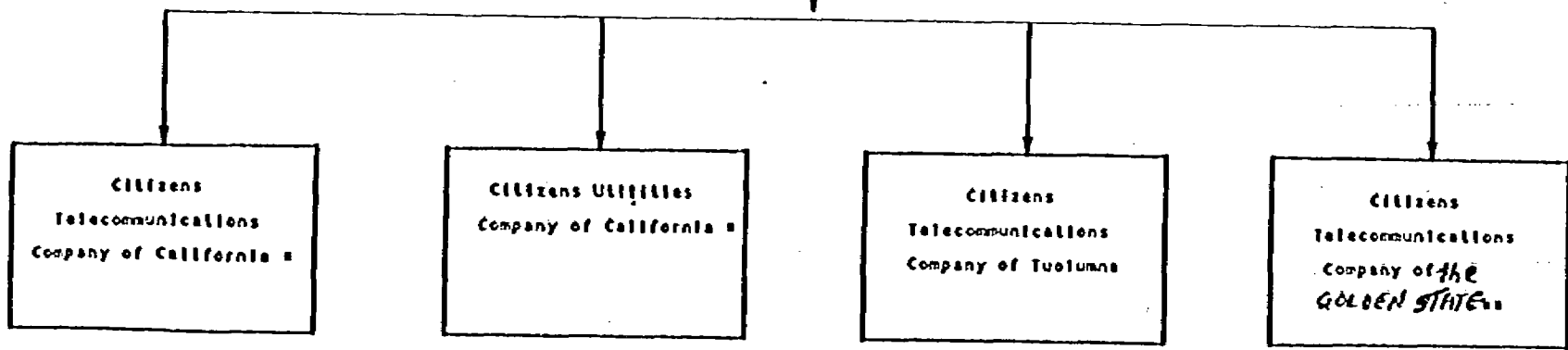
DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
Commissioners

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

Wesley Franklin
Acting Executive Director

Citizens
Utilities
Company

Parent
Company



Direct
Subsidiaries

(END OF APPENDIX A)

* - In D.95-03-017, the Commission granted A.94-07-039, pursuant to which Citizens Utilities Company of California ("CUC") will separate its telephone and water properties. CUC will remain the name for the water properties, and the existing California telephone properties will operate under the name of Citizens Telecommunications Company of California.

** - This is the entity that will operate the CP National properties.