

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of Lynch Telephone Corporation XI, Lynch Interactive Corporation, Brighton Communications Corporation, Cal-Ore Telephone Co. (U-1006-C), and California-Oregon Telecommunications Corporation to Authorize the Acquisition of Indirect Control of Cal-Ore Telephone Co. (U-1006-C) by Lynch Telephone Corporation XI, Lynch Interactive Corporation, and Brighton Communications Corporation through their Acquisition of Control of California-Oregon Telecommunications Company.

Application 04-05-039
(Filed May 25, 2004)

ADMINISTRATIVE LAW JUDGE'S RULING DIRECTING THE APPLICANTS TO FILE A SUPPLEMENT TO THE APPLICATION

This ruling requires the Applicants to file at the Commission's Docket Office a supplement to Application (A.) 04-05-039 that contains the following information and documents:

1. Page 1 of A.04-05-039 states that the proposed transaction will provide demonstrable and significant benefits in the form of improved and expanded services.
 - a. Please identify the specific services that will be improved and the specific improvement(s) for each service.
 - b. Please identify the specific services that will be expanded and a description of where and/or how each service will be expanded.

2. Page 3 of A.04-05-039 indicates that Exhibit 2 of the Application contains a certified copy of California-Oregon Telecommunications Corporation's (COTC's) Articles of Incorporation. However, Exhibit 2 contains only portions of COTC's Articles of Incorporation. Please provide a complete and certified copy of COTC's Articles of Incorporation.
3. Page 3 of A.04-05-039 indicates that Exhibit 3 of the Application contains certified copies of the Certificates of Incorporation and the Certificates of Good Standing for Lynch Telephone Corporation XI, Lynch Interactive Corporation, and Brighton Communications Corporation (collectively, "Purchaser"). However, these documents are only provided for Lynch Interactive Corporation. Please provide Certificates of Incorporation and Certificates of Good Standing for Lynch Telephone Corporation XI and Brighton Communications Corporation.
4. In Decision (D.) 01-06-007, as modified by D.01-10-072, the Commission adopted conditions applicable to the sale of 32 telephone exchanges. It appears that some of these conditions, if appropriately revised to reflect the circumstances of the Applicants, could be applied to the indirect transfer of control of Cal-Ore Telephone Company (Cal-Ore) that is proposed in A.04-05-039. Please state whether the following enumerated conditions in Appendix B of D.01-06-007 should be applied to the Commission's approval of A.04-05-039 (assuming these conditions are appropriately revised to reflect the circumstances of the Applicants): Conditions 2, 3, 4 (as modified by D.01-10-072), 7, 8, 9, 10, 11, 13 (as modified by D.01-10-072), 14, 15, 16, 17, 37, 42, and 44. If any of the previously enumerated conditions should not apply, please explain why.
5. What is the amount of the "management fee" that will be paid by Cal-Ore during each of the years 2004 through 2008? A description of the "management fee" is contained in A.04-05-039, Exhibit 7, page 24.
6. Would it be appropriate for the Commission to approve A.04-05-039 with the condition that Cal-Ore shall not pay a management fee if doing so jeopardizes the utility's ability to provide safe and reliable service to the public at reasonable rates? If not, please explain why.

7. Please identify and describe the specific types and amounts of debt and equity that the Purchasers will use to finance the acquisition of COTC. If the debt and equity identified in response to this question does not sum to the purchase price of \$21.2 million (subject to closing adjustments), please explain why.
8. Please provide the specific interest rate(s) and dividend(s) associated with the debt and equity capital identified in response to Question 5.
9. The balance sheet for Cal-Ore provided in Exhibit 6 of A.04-05-039 shows long-term liabilities in the amount of \$6.52 million.
 - a. Please summarize the material terms and conditions of these liabilities, particularly the terms and conditions applicable to the repayment of the debt and interest rate(s) associated with the debt.
 - b. Will the long-term liabilities remain outstanding after the Purchasers have acquired COTC? If not, please explain how the debt will be retired and what sources of capital, if any, will replace the retired debt.
10. Please provide consolidated financial statements for COTC for each of the years 2001, 2002, and 2003. The financial statements provided for each year should include an income statement, balance sheet, and cash flow statement prepared in accordance with generally accepted accounting principles (GAAP).
11. Please provide a cash flow statement for Cal-Ore for each of the years 2001, 2002, and 2003. The cash flow statements should be prepared in accordance with the same accounting principles used to prepare the financial statements provided in Exhibit 6 of A.04-05-039.
12. Please provide income statements and balance sheets for Cal-Ore for each of the years 2001 and 2002. The income statements and balance sheets should be prepared in accordance with the same accounting principles used to prepare the financial statements provided in Exhibit 6 of A.04-05-039.

13. Please provide annual capital expenditures for (a) Cal-Ore and (b) the other COTC subsidiaries for each of the years 2001, 2002, and 2003. COTC's subsidiaries are identified in A.04-05-039, Exhibit 1, Stock Purchase Agreement, Seller's Disclosure Schedule, page 3. Please summarize the capital expenditures for Cal-Ore at the same level of detail as in the Proposed Plant Budget for 2004 provided in A.04-05-039, Exhibit 1, Stock Purchase Agreement, Seller's Disclosure Schedule, page 45.
14. Please provide annual maintenance expenditures for (a) Cal-Ore and (b) the other COTC subsidiaries for each of the years 2001, 2002, and 2003.
15. The Stock Purchase Agreement in Exhibit 1 of A.04-05-039 has the following statement on page 44 of the Seller's Disclosure Schedule: "The ongoing Capital Expenditure Program of the Telephone Company, details of which have provided to Purchaser, is outside the ordinary course of business and not consistent with past practices."
 - a. Please provide the same details regarding the ongoing Capital Expenditure Program that were given to the Purchasers.
 - b. Please explain why the ongoing Capital Expenditure Program is outside the ordinary course of business and not consistent with past practices.
 - c. Please state if the Purchasers intend to implement the ongoing Capital Expenditure Program in all material respects. If not, please identify and explain all anticipated material departures from the ongoing Capital Expenditure Program.
16. Please provide a detailed description of how COTC and its subsidiaries will collectively generate sufficient cash during the next five years (i.e., 2004 through 2008) to pay for (a) the cost of capital identified in response to Questions 7, 8, and 9 that is used by the Purchasers to acquire COTC, and (b) historical levels of investment and maintenance expenditures for (i) Cal-Ore and (ii) other COTC subsidiaries identified in response to Questions 13 and 14. This description should identify and describe all significant assumptions.

17. Please provide any projected internal rate of return, return on investment, net present value, and/or similar analyses that the Purchasers relied upon in deciding to acquire COTC.
18. Please state whether approval of A.04-05-039 will result in (a) new construction, (b) changes to the operations of COTC or its subsidiaries, and/or (c) changes in the use of existing assets or facilities. If so, please provide (a) a detailed description of (i) the new construction, (ii) changes in operations, and/or (iii) changes in use of existing assets or facilities, and (b) a detailed description of why the Applicants believe the California Environmental Quality Act does not apply. (A.04-05-039, p. 6)
19. Please provide a copy of the federal Hart-Scott-Rodino (HSR) filing that is mentioned on page 8 of A.04-05-039. Please also provide (a) any federal response to the HSR filing, or (b) the date when the "waiting period" expired without any federal response to the HSR filing.
20. In A.04-05-039, Exhibit 1, Seller's Disclosure Schedule, at pages 16-17, there is a list of leases in which Cal-Ore is the lessor. For each listed lease, please cite the Commission decision that approved the lease pursuant to Pub. Util. Code § 851. If Cal-Ore believes it was unnecessary to obtain Section 851 authority for some or all of the leases, please describe the basis for the belief.
21. Does A.04-05-039 request authority pursuant to Pub. Util. Code § 854 to transfer control of Cal-Ore Cellular Inc., Cal-Ore Wireless, Inc., and/or Cal-Ore Long Distance, Inc.? If not, please explain why not.
22. What are the utility identification numbers assigned to Cal-Ore Cellular Inc., and Cal-Ore Wireless, Inc.?
23. Please describe High Desert G.P.

Applicants shall file a supplement containing the previously identified information and documents at the Commission's Docket Office by July 23, 2004. The contents of the supplement shall be verified in accordance with Rule 2.4 of the Commission's Rules of Practice and Procedure. Applicants shall email an electronic copy of the supplement to the assigned Administrative Law Judge

(ALJ) at tim@cpuc.ca.gov. The electronic copy should be in Microsoft Word and Excel, if possible. Applicants shall also provide a hardcopy of the supplement to the ALJ.

IT IS RULED that:

1. On or before July 23, 2004, Applicants shall file at the Commission's Docket Office a supplement to Application 04-05-039 that contains the information and documents specified in the body of this ruling.

2. The contents of the supplement shall be verified in accordance with Rule 2.4 of the Commission's Rules of Practice and Procedure.

3. Applicants shall email an electronic copy of the supplement to the assigned Administrative Law Judge (ALJ) at tim@cpuc.ca.gov. The electronic copy should be in Microsoft Word and Excel, if possible. Applicants shall also provide a hardcopy of the supplement to the ALJ.

Dated July 7, 2004, at San Francisco, California.

/s/ TIMOTHY KENNEY

Timothy Kenney
Administrative Law Judge

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail to the parties who have provided an electronic mail address, this day served a true copy of the original attached Administrative Law Judge's Ruling Directing the Applicants to File a Supplement to the Application on all parties of record in this proceeding or their attorneys of record.

Dated July 7, 2004, at San Francisco, California.

/s/ ELIZABETH LEWIS
Elizabeth Lewis

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission's policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at

A.04-05-039 TIM/hl2

(415) 703-2074, TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.