

Decision No. 17639

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 NEVADA, CALIFORNIA AND OREGON)
 TELEGRAPH AND TELEPHONE COMPANY)
 for an order authorizing the)
 creation of a bonded indebtedness)
 and the original issue and sale)
 thereunder of \$145,000. par value)
 of bonds, and for permission to)
 expend the proceeds from such sale)
 for extensions and additions and)
 for cancellation of existing)
 indebtedness.)

Application No. 13202.

Albert A. Rosenshine, for applicant.

BY THE COMMISSION:

O P I N I O N

Nevada, California and Oregon Telegraph and Telephone Company has applied to the Railroad Commission for an order authorizing it to execute a mortgage and/or deed of trust and to issue and sell, at not less than 94 percent of face value plus accrued interest \$145,000. of first mortgage six and one-half per cent twenty year bonds.

Nevada, California and Oregon Telegraph and Telephone Company is engaged in the telegraph and telephone business, primarily of a toll nature, in Lake County, Oregon, in Washoe County, Nevada and in Modoc, Lassen and Plumas Counties, California. Recently the Commission, by Decision No. 16989, dated June 25, 1926, and by Decision No. 17118, dated July 17, 1926, authorized the company to extend its service into Shasta and Tehama Counties

by building lines from Bieber, Lassen County, to Fall River Mills, Shasta County, and from Chester, Plumas County, to Payne's Creek, Tehama County.

As of July 31, 1926, applicant reports its assets and liabilities as follows:-

A S S E T S

Fixed Capital:		
Toll pole line	\$70,212.68	
Toll aerial wire	52,835.98	
Central office equipment.	9,204.65	
Station equipment	24,958.32	
Exchange pole line.	8,846.63	
Exchange aerial cable.	8,105.49	
Exchange aerial wire	9,904.85	
Exchange underground conduit	861.68	
Exchange underground cable	1,310.44	
General equipment	5,455.90	
Toll underground conduits	39.45	
Toll underground cable	12.00	
Organization.	12,079.01	
Franchises and right of way.	35,983.15	
Undistributed	<u>3,203.72</u>	\$243,014.95
Working Assets:		
Cash and deposits	\$9,254.12	
Employees' working fund	489.75	
Accounts receivable	6,690.65	
Material and supplies.	<u>1,457.99</u>	17,892.51
Deferred debit items.		<u>3,098.90</u>
Total Assets		<u>\$264,006.36</u>

L I A B I L I T I E S

Stock:		
First preferred stock	\$40,830.00	
Second preferred stock	13,484.00	
Common stock	<u>9,880.00</u>	64,194.00
Funded debt		46,500.00
Working liabilities:		
Notes payable	5,900.00	
Accounts payable	4,339.12	
Subscribers' deposits	158.25	
Accruals.	<u>8,417.35</u>	18,814.72
Deferred credits:		
Reserve for depreciation	68,517.84	
Reserve for amortization of intangible capital.	6,509.99	
Other deferred credits	<u>429.55</u>	75,457.38
Surplus:		
Invested in fixed capital	2,785.29	
Invested in sinking fund	13,971.67	
Unappropriated.	<u>42,283.30</u>	59,040.26
Total Liabilities		<u>\$264,006.36</u>

In addition to the \$46,500. of first mortgage bonds shown outstanding the company reports \$8,500. of bonds issued and pledged to secure the payment of notes which it intends to pay from the proceeds of the bonds which it desires permission to sell.

In this proceeding applicant asks permission to issue \$145,000. of Series "A" six and one-half percent twenty year bonds and sell such bonds at not less than 94 percent and use the proceeds for the following purposes:-

1 - For the payment and redemption of the outstanding \$46,500. of first mortgage 6% bonds	\$48,825.
2 - For the construction of additions, betterments and extensions to its properties	48,769.
3 - For the payment of outstanding notes.	5,900.
4 - For the reimbursement of the company's treasury on account of earnings expended for additions and betterments from January 1st to July 31, 1926	6,783.
5 - For the acquisition by purchase of existing telephone and telegraph property	22,500.
6 - For the payment of the cost of issue and sale of the \$145,000. of bonds	<u>12,203.</u>
Total	<u>\$145,000.</u>

The \$46,500. of first mortgage bonds which applicant desires to pay were issued pursuant to the authority granted by this Commission in Decision No. 12622, dated February 7, 1914. They were used to finance in part the purchase by applicant of the properties then operated by the California Oregon Telephone Company and California Northern Telephone and Telegraph Company. (Vol. 4, Opinions and Orders of the Railroad Commission of California, page 168). The \$46,500. of bonds have been called for redemption at 105, or at a cost of \$48,825. To realize \$48,825. through the sale of six and one-half percent bonds at 94, applicant will have to issue and sell \$51,945. of

said bonds. Considering the interest charge only there will be an annual increase in fixed charges on account of this refunding of \$585.16. In addition there will be an increase of \$5,441.00 in the principal of bonds outstanding. The company urges that it cannot sell its first mortgage bonds on account of certain provisions of its mortgage, nor can it obtain a reasonable price for new bonds so long as the first mortgage bonds are outstanding. It has, therefore, concluded to redeem the first mortgage bonds even though it results in an increase in the annual interest charges on the amount of bonds outstanding. The request to redeem six percent bonds through the issue of six and one-half percent bonds at 94 will not be granted. We will authorize the company to use the proceeds from \$43,000.00 of six and one-half percent bonds to redeem in whole or in part the \$46,500.00 of six percent bonds. Any additional money needed to redeem the six percent bonds should be obtained from the sale of common stock to replace some of the common stock heretofore purchased by the company or from surplus earnings available for dividends on the common stock. Through such a refunding there will be no material increase in the annual fixed charges of the company.

The company further asks permission to use \$48,789.52 for construction purposes. The \$48,789.52 is to be used to construct the following telephone lines and equip the same:-

Between Susanville & Red Bluff, 105.6 miles	\$25,231.36
Between Milford & Doyle, 22 miles	3,681.03
Between Aiden & Alturas, 45.1 miles	7,030.53
Between Ball River Mills & Bieber, 22.5 miles	7,696.02
Between Bieber & Aiden, 14.1 miles	<u>5,160.58</u>
Total	<u>\$48,789.52</u>

Applicant's Exhibit "D" contains a detailed estimated cost of the several telephone lines and includes the two lines to

be built pursuant to the authority granted by this Commission in Decisions No. 16989 and No. 17118. It appears that construction work has been started on some of the lines and that up to July 31, 1926, there was expended the sum of \$3,203.72. Applicant reports that until funds are available from the sale of the bonds it will continue with such construction paying the same either from earnings or from the proceeds of short term notes. It asks an order from the Commission permitting it to reimburse its treasury or pay notes which may be issued on account of such construction. This request will be granted as will also applicant's request to use bond proceeds to pay \$5,900. of outstanding notes issued to finance new construction and its request to reimburse its treasury to the extent of \$6,783. on account of earnings expended for additions and betterments between January 1 and July 31, 1926.

In regard to the expenditure of \$22,500. for the purchase of additional telephone properties the company in its petition recites that it is not in a position at this time to furnish the detailed information required by the Commission in connection with the proposed purchase of telephone property nor is it in a position to make formal application to the Railroad Commission for the right to purchase such property. It requests that any order issued by the Commission shall provide the sum of \$22,500. to be held by the trustee subject to further order of the Commission. This Commission will not authorize the issue of bonds for the purpose of purchasing properties until it has authorized the sale of the properties to and purchase by applicant.

The company appropriates \$12,203. of the proceeds which it intends to obtain from the sale of \$145,000. of bonds to pay the cost of the issue and sale of such bonds. If applicant

were to sell \$145,000. of bonds at 94, it would incur a discount of \$8,700. This discount is apparently included in the \$12,203. Deducting the \$8,700. from the \$12,203. leaves a balance of \$3,503. to cover the actual cost of issuing and selling the bonds. We believe that any expense incurred by applicant in connection with the issue and sale of the bonds should be paid out of applicant's earnings and not with proceeds obtained from the sale of the bonds. The order herein will permit applicant to issue \$109,000. of bonds and will indicate the purposes for which the proceeds may be used. The remaining \$36,000. of bonds may be issued only after the Commission by supplemental order or orders has authorized their issue and indicated the purposes for which the proceeds may be used.

The mortgage and/or deed of trust filed in this proceeding as applicant's Exhibit "C" is satisfactory in form except in two particulars. We believe that the proviso of Section eleven of Article Six reading:

"Provided, however, that if at any time after receiving such written request of the holder or holders of twenty-five (25) per cent. on amount of the bonds hereby secured and then outstanding, there be delivered to the Trustee a notice in writing signed by the holder or holders of a majority in amount of the bonds hereby secured and then outstanding and directing the Trustee to disregard such written request then and in that event the Trustee, upon being reasonably indemnified, shall obey the terms of such notice so executed by the holder or holders of a majority in amount of such bonds, and shall take such action as such notice shall direct, and the Trustee may take under the provisions of this Indenture."

should be eliminated. We are further of the opinion that wherever the term "seventy-five percent" is used in Article Nine, it should be changed to "eighty percent".

ORDER

The Nevada, California and Oregon Telegraph and Telephone Company having applied to the Railroad Commission for an order authorizing the execution of a mortgage and/or deed of trust and the issue of \$145,000. of bonds, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that applicant should at this time be permitted to issue \$109,000. of said bonds and that the issue of the bonds is reasonably required for the purposes specified herein, and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Nevada, California and Oregon Telegraph and Telephone Company be, and it is hereby, authorized to execute a mortgage and/or deed of trust substantially in the same form as that filed in this proceeding as Exhibit "C" as modified by Exhibit "I" and as further modified as indicated in the foregoing opinion, and to issue and sell, on or before June 30, 1927, at not less than 94 percent of face value plus accrued interest, not exceeding \$109,000. of first mortgage six and one-half percent twenty year bonds.

The authority herein granted is subject to the following conditions:-

- I. The authority herein granted to execute a mortgage and/or deed of trust is for the purpose of this proceeding only and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act and is not intended as an approval of such mortgage

and/or deed of trust as to such other legal requirements to which said mortgage and/or deed of trust may be subject.

2. Applicant may use the proceeds to be obtained through the issue of the \$109,000. of bonds, other than accrued interest, for the following purposes:-

- a. To finance the estimated expenditures set forth in Exhibit "D", or to reimburse its treasury on account of surplus earnings used for such purposes or to pay indebtedness incurred for such purposes, about \$48,789.00
- b. To reimburse its treasury on account of earnings used for capital additions during the period from January first to July thirty-first, 1926, not exceeding 6,783.00
- c. To pay in part the \$46,500. of bonds referred to in the foregoing opinion, or to reimburse its treasury on account of earnings used for such purpose or to pay indebtedness incurred for such purpose 40,420.00
- d. To pay outstanding notes. 5,900.00

The accrued interest may be used for general corporate purposes.

3. Applicant shall file with the Commission, as soon as available, a certified copy of its mortgage/and/or deed of trust as finally executed.

4. Applicant shall keep such record of the issue and sale of the bonds herein authorized and of the disposition of the proceeds as will enable it to file, on or before the 25th day of each

month, a verified report as required by the Railroad Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

5. The authority herein granted to issue bonds shall become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Sixty-seven (\$67.00) Dollars.

DATED at San Francisco, California, this 18th day of November, 1926.

H. H. Brandegee

C. C. Sauer

Geo. W. Deitz

John D. Pettit

Commissioners.

Fee \$67.00
RAILROAD COMMISSION
STATE OF CALIFORNIA
NOV 19 1926
J. P. Hutchinson
Fee # 23580