

Decision No. 22899

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA-OREGON TELEPHONE CO.,
for an order authorizing the issue of
\$20,000 face amount of its First
Mortgage Bonds.

} Application No. 22899

BY THE COMMISSION:

O P I N I O N

In this proceeding California-Oregon Telephone Co. asks permission to issue at not less than 95% of their face value and accrued interest \$20,000 of its 5% First Mortgage Bonds and to execute an indenture to secure the payment of an authorized bond issue of \$50,000.

California-Oregon Telephone Co. is a California corporation. It owns and operates a telephone plant and system at Tule Lake and vicinity in Modoc and Siskiyou Counties. The company's lines connect with the toll system of Columbia Utilities Company at the Oregon-California line (Hatfield) and with the system of the Public Utilities California Corporation at Perez, California. The Columbia Utilities Company, through stock ownership, controls applicant.

Mr. C. T. Leeds, Jr., an associate engineer of the Railroad Commission, inventoried and appraised the company's properties as of October 31, 1929. A copy of his report was supplied to applicant. Its general manager has advised the Commission in writing that applicant had no objection to said inventory and appraisal. In his report, Mr. C. T. Leeds, Jr. shows the historical cost of applicant's properties at \$42,045.18 and the accrued depreciation at \$5,956.44. The two amounts are segregated as follows:-

	<u>Estimated Cost</u>	<u>Accrued Depreciation</u>
Organization	\$ 704.20	\$ -
Franchises	250.00	-
Buildings	80.71	5.17
Central office equipment	755.00	167.61
Station apparatus	5,149.21	1,153.42
Station installations	539.48	-
Drop and block wires	961.51	-
P. B. X.	44.07	17.58
Booths and special fittings	6.71	1.36
Pole lines	21,385.31	3,614.12
Aerial cable	2,421.46	46.01
Aerial wire	9,154.25	906.27
Underground conduit	154.01	4.93
Furniture and office equipment	439.26	39.97
	<u>\$42,045.18</u>	<u>\$5,956.44</u>

The depreciated estimated cost of the properties is \$36,082.74.

The company reports for 1937, operating revenues of \$9,371.57, for 1938 operating revenues of \$10,677.36 and for the first six months of 1939, operating revenues of \$5,794.48.

It is of record that applicant is indebted to Columbia Utilities Company in the amount of \$16,333.66. It desires permission to issue its bonds for the purpose of paying this debt and providing itself with about \$2,000 of cash needed to extend its telephone system in order that service may be given to new settlers in the Tule Lake region. We believe that applicant's bond issue should be limited to \$18,000, and that said bonds should be sold for not less than par.

As stated, applicant asks permission to execute an indenture to secure the payment of an authorized bond issue of not to exceed \$50,000. Of these bonds, it proposes to issue presently \$20,000 face amount. The issue, however, will be, by the order herein, limited to \$18,000. Under applicant's present proposal the bonds will be dated July 1, 1939; bear interest at the rate of 5% per annum, payable semi-annually and mature serially as follows:

\$1,000 face amount during each of the years from July 1, 1941 to July 1, 1946, both inclusive, and \$2,000 per annum for the years thereafter until all of said bonds are paid.

The company reserves the right to redeem said bonds on sixty days' notice. If they are redeemed on or before July 1, 1942, the company must pay the principal, the accrued interest and a premium of 2½%; if they are redeemed after July 1, 1942 but on or before July 1, 1944, the premium is 2%; if they are redeemed after July 1, 1944 but on or before July 1, 1946, the premium is 1½%; if they are redeemed after July 1, 1946 but on or before July 1, 1948, the premium is 1%; if they are redeemed after July 1, 1948 and on or before July 1, 1950, the premium is 1/2 of 1%. No premium is payable on bonds redeemed after July 1, 1950. We have no objection to the bonds being dated January 1, 1940 and other appropriate changes made in the dates just mentioned.

Applicant has filed in this proceeding a copy of its proposed indenture. We have reviewed this indenture and believe that it should be modified in several respects. It occurs to us that the granting clauses would be less ambiguous if paragraph (c) of Division IV were eliminated in its entirety. Paragraph (b) of Section 2, Article I and Section 4 of Article I of the indenture cover the same subject matter. In our opinion, paragraph (b) of said Section 2 should be deleted. The second paragraph (c) under Section 2 of Article II makes a reference to depreciation charges to the extent set forth in Section 9 of Article III of the indenture. However, said Section 9 of said Article III does not relate to depreciation charges or depreciation expense and consequently one or the other of said section should be revised. Under Section 11 of Article III of the indenture, the company covenants that it will not declare or pay any cash dividend upon its capital stock of any classification, at any time outstanding, except out of earned surplus accumulated subsequent to July 1, 1939. The

section then provides that the annual net earnings added to surplus shall be determined according to sound telephone utility accounting practices, and that the company will not pay any such cash dividends, in any event, to such an amount as will reduce the earned surplus of the company below an amount sufficient to pay in full the bonds maturing under the terms of the indenture at the next two maturity dates following the declaration of such dividends. This section should be revised, and as revised, obligate the company to determine its annual net earnings according to the system of accounts prescribed by the Railroad Commission of the State of California, or, in the absence of such a system of accounts, according to sound telephone utility accounting practices.

Section 3 of Article V of the indenture provides that any moneys paid to the corporate trustee and not expended within a period of two years after the deposit of the moneys with the corporate trustee shall be applied by the corporate trustee as the company may direct, to the purchase of bonds of any series then outstanding. This language, we believe, should be modified so as to require the corporate trustee to select in an impartial manner the bonds to be redeemed through the use of such funds.

We believe that applicant should submit to the Commission a revised indenture securing the payment of its bonds, and that the order herein authorizing applicant to issue bonds should not become effective until the Commission has authorized applicant to secure an indenture for the payment of such bonds.

ORDER

The Commission having considered the request of California-Oregon Telephone Co. to issue \$20,000 of bonds, and it being of the opinion that this is not a matter in which a hearing is necessary, and that

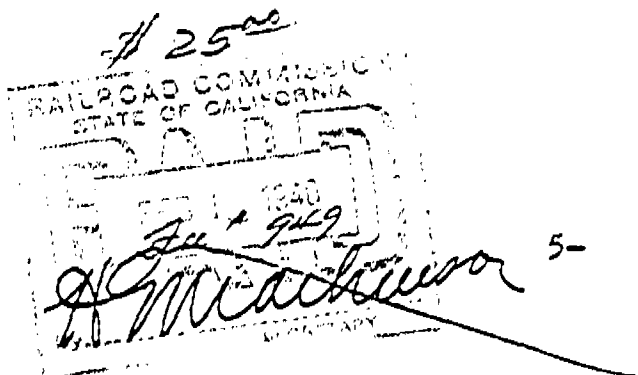
applicant should be authorized, subject to the provisions of this order, to issue not exceeding \$18,000 of First Mortgage Serial 5% Bonds for the purpose of paying indebtedness and constructing additions and betterments to its properties, and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED that the California-Oregon Telephone Co. may, after the effective date hereof and prior to August 1, 1940, issue at not less than par, \$18,000 of its First Mortgage Serial 5% Bonds, and use the proceeds to pay indebtedness due Columbia Utilities Company and pay the cost of additions and betterments, to which reference is made in applicant's petition, or pay indebtedness incurred for that purpose.

119M. IT IS HEREBY FURTHER ORDERED that the authority herein granted will not become effective until the Commission has authorized California-Oregon Telephone Co. *execute an indenture to* secure the payment of said bonds, or until California-Oregon Telephone Co. has paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which minimum fee is Twenty-five (\$25.00) Dollars.

IT IS HEREBY FURTHER ORDERED that California-Oregon Telephone Co. shall file with the Railroad Commission monthly reports in compliance with the Commission's General order No. 24-A, which order, insofar as applicable, is made a part of this order.

DATED at San Francisco, California, this 6th day of February, 1940.



[Signature]
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JUSTICE F. CULLEN
COMMISSIONERS