

ORIGINAL

Decision No. 48274

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application	)	
of SAN JOAQUIN TELEPHONE COMPANY,	:	
a California Corporation, for	)	Application
authority to issue a note or notes	:	No. 33964
in the amount of \$45,625.00.	)	
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In the Matter of the Application	)	
of SAN JOAQUIN TELEPHONE COMPANY,	:	
a California corporation, for	)	Application
authority to issue and sell	:	No. 33965
securities.	)	
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Talbot Kendall, Reginald L. Vaughan and John G. Lyons, for applicant; John F. Donovan, for the Commission's staff.

O P I N I O N

In these proceedings, filed on December 19, 1952, the Commission is asked to make its orders authorizing San Joaquin Telephone Company to issue a note or notes in the principal amount of \$45,625 and to issue and sell, at par for cash, 6,500 shares of its Original Prior Preferred Stock, \$20 Par Value, 7% Series B, of the aggregate par value of \$130,000, for the purpose of paying indebtedness and of financing the cost of additions and improvements to its telephone plants and properties. The shares of preferred stock are noncumulative and are redeemable at the option of the company at \$20 each.

A public hearing on the two applications was held in San Francisco before Commissioner Mitchell and Examiner Coleman on January 26, 1953, at which time they were consolidated for the purpose of taking evidence and for decision. The Commission has received no protests in either matter.

San Joaquin Telephone Company is engaged as a public utility in giving telephone service in and about the cities of Manteca and Ripon, in San Joaquin County. From information filed in these proceedings, the following statement has been prepared showing its investment in its assets and its liabilities and net worth as of December 31, 1952:

<u>Assets</u>		
Investments -		
Telephone plant in service	\$444,857.76	
Telephone plant under construction	9,730.70	
	<u>454,588.46</u>	
Less: depreciation reserve	56,917.83	
Balance		\$397,670.63
Current assets -		
Cash	43,376.35	
Accounts receivable	30,358.03	
Due from common stockholders	13,684.57	
Materials and supplies	34,752.87	
Prepayments	<u>2,551.42</u>	
Total current assets		124,723.24
Deferred debits		<u>4,005.94</u>
Total		<u>\$526,399.81</u>
<u>Liabilities and Net Worth</u>		
Long-term debt		\$146,562.50
Current liabilities -		
Accounts payable	\$ 96,344.50	
Advance billings	8,763.71	
Other current liabilities	<u>11,332.12</u>	
Total current liabilities		<u>116,440.33</u>
Total liabilities		263,002.83
Contributions to telephone plant		23,530.99
Preferred stock--7% noncumulative		120,000.00
Net worth -		
Common stock	100,000.00	
Surplus	<u>19,865.99</u>	
Total net worth		<u>119,865.99</u>
Total		<u>\$526,399.81</u>

Applicant reports that it is indebted to The Pacific Telephone and Telegraph Company in the amount of \$44,787.67 on account of intercompany toll settlements and to Kellogg Switchboard and Supply Company in the amount of \$26,498.29 for materials and supplies, and that it desires to issue the note or notes referred to in these

proceedings for the purpose of liquidating a portion of these items of indebtedness. The proposed note or notes will be issued to The Stockton Savings and Loan Bank in the principal amount of \$45,625 and will be payable in monthly installments of \$100 with interest at the rate of 6% per annum. The payment of the note or notes will be secured by the chattel mortgage presently outstanding as security for the long-term debt of \$146,562.50 shown in the preceding balance sheet.

Applicant reports that it is faced with the necessity of making further capital expenditures during 1953 in the aggregate amount of \$182,200 to extend and improve its facilities. The estimated expenditures, together with the estimated completion dates, are shown in its Exhibit 3 as follows:

<u>Description</u>	<u>Estimated Completion Date</u>	<u>Estimated Gross Addition</u>
<u>WEST RIPON RURAL AREA</u>		
Rebuild, extend and supplement cable and open wire facilities from the central office to the rural area west and south of the City of Ripon	4/30/53	\$ 27,900.00
<u>SOUTH UNION ROAD</u>		
Rebuild, extend and supplement cable and open wire facilities on Union Road between W. Yosemite and the River	9/ 1/53	11,900.00
<u>SOUTH MANTECA ROAD</u>		
Supplement outside plant facilities on South Manteca Road from Woodward Ave. to the River	10/15/53	9,600.00
<u>MAIN ALLEY, MANTECA</u>		
Rebuild and supplement cable facilities in the main alley East of the central office to Grant Ave. To relieve Eastern section of Manteca and provide rural facilities for Northeastern area of the Manteca Exchange	11/15/53	11,300.00
Billing and accounting machines	6/30/53	7,500.00
Conversion of Ripon office to un-attended dial operation	4/ 4/53	84,000.00
Station equipment and its installation	Throughout the year	20,000.00
Other miscellaneous additions	"	<u>10,000.00</u>
Estimated gross plant additions - 1953		<u>\$182,200.00</u>

The Commission recently has reviewed applicant's operations and by Decision No. 48147, dated January 13, 1953, authorized increases in rates designed to produce operating revenues of approximately \$276,000 in 1953, being an estimated increase of approximately \$22,000 in annual operating revenues. In its decision the Commission commented on applicant's held orders and directed it to establish service, on or before December 31, 1953, to all applicants of record on December 31, 1950, and to so arrange its plants and construction program as to serve all applicants for service on a current basis by June 30, 1954. From the record in the present proceeding it appears that applicant is undertaking to meet the requirements of the Commission's order and to set up its construction programs to meet the prescribed time limits.

The testimony taken at the hearing shows that applicant, after investigation, has concluded that it will be required to issue and sell \$130,000 par value of its preferred stock to meet in part its \$182,200 construction program, that it has on hand approximately \$24,000 obtained from the sale of securities heretofore authorized by the Commission, that it has on its balance sheet the sum of \$13,684 representing amounts due from the holders of its common stock, and that its depreciation accruals during 1953 will amount to about \$23,000. Applicant presented testimony to the effect that it is necessary for it to pay dividends on its shares of preferred stock at the rate of 7% in order to effect the sale, that it is the intention of applicant's officers to dispose of the offering through their own efforts, and that no commissions will be paid.

From information filed in these proceedings it appears that applicant's outstanding shares of common stock have been held by Talbot Kendall and Sallie Kendall, who from time to time have invested

other funds in the enterprise represented by notes and retained earnings. It appears that during the last three years the exchanges at Manteca and Ripon have been consolidated into one corporation, that the total investment in telephone plant has increased from \$312,433.54 at the beginning of 1950 to \$454,588.46 at the close of 1952, that during this same period the investment of the Kendalls has decreased from \$168,718.38 to \$119,865.99, the decrease being accounted for primarily through the payment of outstanding notes, and that outstanding financing represented by preferred stock and bank loans has increased by \$266,562.50. The capital ratios of applicant following these changes, as of December 31, 1952, and as adjusted to give effect to the financing proposed in the two pending proceedings, are as follows:

	<u>December 31, 1952</u>	<u>Pro Forma</u>
Long-term debt	38%	34%
Preferred stock	31	44
Equity capital	<u>31</u>	<u>22</u>
Totals	<u>100%</u>	<u>100%</u>

While the foregoing tabulation indicates that as a result of the issues about to be undertaken applicant will have a capital structure with a substantial portion of preferred stock money, it appears from the testimony that applicant has not been able to increase its debt position due to its earnings record, although it estimates that with the increase in rates recently granted and with certain economies which it proposes to place into effect in 1953, its net earnings will be sufficient to enable it to pay the dividends on the shares of preferred stock it now seeks to offer. The economies to be effected, according to the testimony, consist of a reduction in rent expense of \$1,800 a year, savings in operating costs resulting from the dial conversion at Ripon, and the elimination of maintenance expenses following the rebuilding program outlined in Exhibit 3.

Ordinarily we would not be inclined to authorize security issues under terms such as are here proposed and with similar relationships existing with respect to the components of the capital structure and with respect to earnings. However, service to the public is of paramount importance and from our review of applicant's affairs we believe it imperative for it to undertake its improvement program at once. While the interest and dividend rates associated with the proposed issues are high, we will authorize the issue of the note or notes and the shares of preferred stock, as requested, in order to give applicant the opportunity to obtain construction funds. At the same time, however, we wish to point out to those who intend to invest in any public utility stocks or bonds that they must take the risk of success in the venture and that the Public Utilities Commission cannot insure any utility against lack of success. The most that the investor may expect from the Commission is that the utility will be authorized to charge rates designed to yield a fair return on the money invested in operative plant, as it is not the Commission's practice to fix rates measured by interest and dividends on outstanding securities. In this connection Section 828 of the Public Utilities Code, referring to stocks and security transactions, reads as follows:

"No provision of this part, and no act done or performed under or in connection therewith, shall obligate the State to pay or guarantee, in any manner whatsoever, any stock or stock certificate or other evidence of interest or ownership, or bond, note, or other evidence of indebtedness, authorized, issued, or executed under the provisions of this part."

It clearly appears that applicant should undertake to improve its capital structure. One method to do so would be through the gradual retirement of its shares of preferred stock, and in our opinion applicant should make provision for the retirement of the shares of preferred stock of Series B over a period of not exceeding twenty-five years following the conclusion of the construction program

authorized in these proceedings.

Applicant is placed upon notice that under the provisions of the Commission's General Order No. 24-A it will be required to deposit the proceeds from the issue of its note and shares of preferred stock in a separate bank account and to withdraw such proceeds only for the purposes to be specified in this decision.

O R D E R

A public hearing having been held on the above entitled matters, and the Commission having considered the evidence and being of the opinion that the applications should be granted, as herein provided; that the money, property or labor to be procured or paid for by the issue of the note or notes and the shares of stock herein authorized is reasonably required by applicant for the purposes specified herein; and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. San Joaquin Telephone Company, on and after the effective date hereof and on or before June 30, 1953, may issue a note or notes in the aggregate amount of \$45,625 to The Stockton Savings and Loan Bank for the purpose of paying outstanding indebtedness representing funds used for the acquisition of properties and materials for the construction and improvement of its plant and facilities, such note or notes to be secured under applicant's presently outstanding chattel mortgage and to be payable in monthly installments of \$100 or more, with interest at not exceeding 6% per annum.

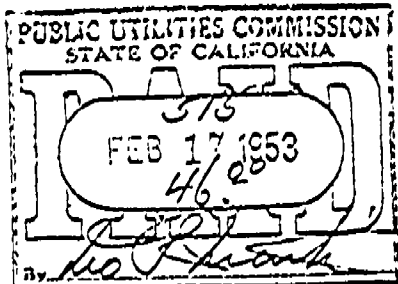
2. San Joaquin Telephone Company, on and after the effective date hereof and on or before December 31, 1953, may issue and sell, at par for cash, not exceeding 6,500 shares of its Original Prior Preferred Stock, \$20 Par Value, 7% Series B, and use the proceeds for the purposes set forth in Exhibit 3 filed at the hearing in these proceedings.

3. If San Joaquin Telephone Company issues and distributes a prospectus in connection with the offering of said shares of preferred stock, it shall file a copy of such prospectus with the Commission as soon as available.

4. San Joaquin Telephone Company shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

5. The authority herein granted to issue a note or notes will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is forty-six dollars. The authority to issue shares of preferred stock will become effective when applicant has filed with the Commission a certified copy of an amendment to its Articles of Incorporation providing for the retirement of the series of preferred stock herein authorized over a period of not exceeding twenty-five years commencing January 1, 1955.

Dated at San Francisco, California, this 17<sup>th</sup> day of February, 1953.



Handwritten signatures and titles: President, Justus F. ... , Harold P. ... , ... , ... Commissioners