

ORIGINAL

Decision No. AS597

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
THE VOLCANO TELEPHONE COMPANY)
to borrow money and issue its notes)
therefor and to issue stock.)
-----)

Application
No. 34199

O P I N I O N

The Volcano Telephone Company, applicant in this proceeding, is a California corporation engaged in operating a telephone system in portions of Amador and Calaveras counties. At this time it seeks authorization to enter into a loan agreement with Stromberg-Carlson Company, to issue notes in the aggregate principal amount of \$60,000, and to execute a mortgage and, in addition, to issue at par, 440 shares of common stock, of the par value of \$25 each and of the aggregate par value of \$11,000, all for the purpose of paying indebtedness and of financing the cost of improvements.

The telephone system formerly was owned by The Western Telephone Company. In 1951 that corporation sold it to James W. Welch and T. P. Houck, who conducted the operations until 1952 when T. P. Houck transferred his interest to James W. Welch who thereafter caused the organization of The Volcano Telephone Company, a corporation, to take over the properties and to continue the operations. At the close of 1952 all the outstanding stock (1,573 shares) was reported held by James W. Welch.

Financial reports filed with the Commission by the several owners during the last five years show the number of stations and the investment in plant as of December 31, and the operating revenues for the years 1948 to 1952, inclusive, as follows:

	<u>Stations</u>	<u>Plant Accounts</u>	<u>Operating Revenues</u>
1948	129	\$30,611	\$20,052
1949	150	33,865	16,909
1950	175	42,814	24,803
1951	271	55,003	32,884
1952	286	63,128	34,816

Applicant and its predecessors have operated a magneto switchboard at Volcano and recently have installed a dial board at West Point. Applicant now is undertaking to convert the remainder of its operations to dial and is undertaking to purchase and install a dial switchboard at Pine Grove. At the conclusion of its program it will abandon the magneto board at Volcano and will conduct its exchange operations through the dial exchanges at Pine Grove and West Point, with The Pacific Telephone and Telegraph Company at Jackson doing the operating of its toll line.

To install the Pine Grove improvements, according to the present application, will call for the expenditure of \$50,000 for the following purposes:

XY dial switchboard	\$11,000
Telephones and dials	7,000
Materials and supplies	22,000
Labor	5,000
Building	2,000
Carrier equipment	<u>3,000</u>
Total	<u>\$50,000</u>

In addition to these expenditures, applicant has need for funds to pay presently outstanding indebtedness consisting of notes in the principal amount of \$12,000 which were issued to The Western Telephone Company, James W. Welch and Harry G. Smith to pay for properties, to finance the cost of additions and betterments, and to provide a part of the cost of switchboard equipment at the West Point station. It appears that the total cost of the new facilities at West Point amounts to approximately \$10,790, and that applicant

has need for an additional \$9,000 at this time to complete the payment.

To obtain the several sums needed, applicant proposes to issue notes and shares of stock as follows:

Notes -	
To finance Pine Grove improvements	\$50,000
To refund indebtedness	<u>10,000</u>
Total	<u>\$60,000</u>
Stock -	
To pay two demand notes	\$ 2,000
To complete payment of West Point improvements	<u>9,000</u>
Total	<u>\$11,000</u>

The application shows that the shares of stock will be sold to James W. Welch and Harry G. Smith, and applicant has made arrangements to issue the \$60,000 of notes to Stromberg-Carlson Company. Under the arrangements made, applicant will issue interim notes from time to time which will bear interest at the rate of 5% per annum and which will be canceled and replaced within 60 days after the installation or cut-over of the central office equipment at Pine Grove by the execution of a final note, payable in 240 consecutive monthly and substantially equal installments with interest at the rate of 5-1/4% per annum. The payment of the final note will be secured by a mortgage on applicant's properties. Applicant has filed with the application a copy of its loan agreement with Stromberg-Carlson Company under which the moneys will be advanced, together with copies of the forms of the proposed notes and of the mortgage. On April 17, 1953, it filed revised copies of the mortgage and amendments to the loan agreement.

Upon reviewing this matter we are of the opinion that applicant's requests should be granted.

O R D E R

The Commission having considered the above entitled matter, and being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the notes and 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. The Volcano Telephone Company may execute and enter into a loan agreement with Stromberg-Carlson Company and may execute a mortgage, in, or substantially in, the same form as the loan agreement and the mortgage filed in this proceeding as Exhibit A and Exhibit B, respectively, as revised and amended, and may issue interim notes pursuant to the terms of said agreement and for the purposes set forth therein in the aggregate amount of not exceeding \$60,000 at any one time outstanding.

2. The Volcano Telephone Company may issue its final note as set forth in said agreement in the principal amount of not exceeding \$60,000 in replacement or payment of interim notes of like amount.

3. The Volcano Telephone Company may issue not exceeding 440 shares of its capital stock, at not less than par, for cash, and use the proceeds to pay indebtedness and to finance the cost of additions and improvements to its properties.

4. Within 30 days after execution of the mortgage under the authorization herein granted, applicant shall file two copies of

the same with the Commission.

5. Applicant 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.

6. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code.

Dated at San Francisco, California, this 19th day of May, 1953.

R. E. Anderson
President

Justus F. Carlson
Harold A. Hula

Samuel P. Peterson
John L. Mitchell
Commissioners

