

ORIGINAL

Decision No. 49060

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
DOS PALOS TELEPHONE CO., INC., a
corporation, for authority:)
:

1. To enter into an amendment with
the United States of America to the
Telephone Loan Contract dated as of
May 19, 1952, between Dos Palos Telephone
Co., Inc., and United States of America;)
:

2. To execute its promissory note or
notes to United States of America pur-
suant to the aforesaid amendment in the
sum of \$461,000.00 in addition to the
previously authorized sum of \$254,000.00
provided for in the aforesaid loan agree-
ment; said note or notes to be secured by
the existing Mortgage of Realty and
Chattels;)
:

Application
No. 34571

3. To apply the proceeds derived from
said note or notes to the expansion,
rehabilitation, and improvement of the
plant, plant facilities, and of said
system, and to discharge certain obliga-
tions of the company.)
:
-----)

Linneman, Burgess, Telles & Van Atta, by
L. M. Linneman, for applicant; W. W. Dunlop
and J. E. Donovan, for the staff of the
Commission.

O P I N I O N

This is an application for an order of the Commission authorizing Dos Palos Telephone Co., Inc. to execute and deliver to the United States of America, acting through the Rural Electrification Administration, its promissory notes in the principal amount of \$461,000, secured by its existing mortgage of realty and chattels. The proposed notes are in addition to the \$254,000 of notes heretofore authorized and, if approved by the Commission, will bring the total borrowings up to \$715,000.

The application was filed on July 23, 1953. A public hearing was held before Examiner Coleman in San Francisco on August 21, 1953, at which time the matter was taken under submission.

Present Operations

Applicant owns and operates dial exchanges at Dos Palos and South Dos Palos, in Merced County, with lines extending into Fresno County, its service area comprising some 300 square miles, the southern half of which is a farmer line zone with the subscribers owning their telephone facilities.

The record shows that presently applicant is serving 1,448 stations and has 188 held orders. As of June 30, 1953, it reports its investments, liabilities and capital as follows:

Assets

Telephone plant -		
Plant in service	\$273,973.25	
Plant under construction	<u>9,243.16</u>	
Total	283,216.41	
Less: depreciation reserve	<u>49,465.94</u>	
Total plant less reserve		\$233,750.47
Current assets -		
Cash and working funds	(18,327.58)	
Accounts receivable	12,120.05	
Materials and supplies	<u>10,357.59</u>	
Total current assets		4,150.06
Deferred debits		<u>9,287.78</u>
	Total	<u>\$247,188.31</u>

Liabilities and Capital

Long-term debt to R.E.A.		\$ 82,720.00
Current liabilities		13,330.97
Deferred credits		6,094.09
Capital -		
Capital stock	\$ 98,495.00	
Unappropriated surplus	<u>46,548.25</u>	
Total capital		145,043.25
	Total	<u>\$247,188.31</u>

Former Proceeding

In an earlier proceeding (Application No. 33380, filed on May 29, 1952) applicant reported that it was faced with the necessity of increasing its plant to meet demands for service, that it had found it impossible to obtain funds from equity capital to meet its requirements, and that it had entered upon negotiations to obtain R.E.A. loans in the amount of \$254,000 to finance the improvement of its present facilities and construction of additional ones to serve 300 additional subscribers.

Thereafter, the Commission, by Decision No. 47613, dated August 26, 1952, authorized applicant to enter into a loan contract, to execute a mortgage of realty and chattels, and to issue notes in the aggregate amount of \$254,000. The Commission specified, however, that applicant could use up to \$85,453 of the proceeds to pay outstanding indebtedness and that it could not disburse any other proceeds unless and until it filed supplemental applications setting forth its proposed expenditures in some detail and received supplemental authorizations.

It appears that pursuant to the authorization granted by said Decision No. 47613, applicant executed the mortgage and issued notes in the principal amount of \$82,720, as shown on its balance sheet, to retire an existing loan.

Revised Program

The record in the present proceeding shows that applicant has caused a detailed commercial survey to be made of the present and prospective telephone development in its territory in the course of which there were considered all the individual establishments in the area such as farms, homes and other structures and the possibility of

extending service to them. Upon the basis of the information thus developed, applicant concludes that by the first half of 1955 it should be serving approximately 2,000 subscribers and by the first half of 1958 approximately 2,500 subscribers. In other words, it anticipates an increase of almost 600 subscribers in the next two years, as compared with the original estimated increase of 300 used in the earlier proceeding, and an increase of 1,100 subscribers within five years. It appears that these estimates of growth are confined to the area served by the company-owned plant, it being intended for the present for the southern half of the service area to remain as a farmer line zone.

To serve the estimated and prospective load and to provide plant margins, applicant plans to replace the present central office equipment at Dos Palos, which is said to be inadequate, to discontinue the central office at South Dos Palos, and to establish three new central offices, one at Dos Palos, one at Dos Palos Y which is approximately $4\frac{1}{2}$ miles north of Dos Palos, and one at Oro Loma. The subscribers at South Dos Palos will be served by a cable from Dos Palos and the new central office at Oro Loma will provide switchboard connection facilities for the farmer line subscribers in the southern portion of applicant's territory.

It is anticipated that the proposed construction work will take approximately one year to complete and that it will provide plant margins for future growth for ten years with respect to poles, cables and cross-arms and for five years with respect to open wire, central office and station equipment. In brief, the proposed layout contemplates the expansion of applicant's central office and outside plant facilities in order to furnish telephone service to all urban and rural subscribers desiring such service within its area, with the

exception of that portion comprising the farmer line zone. The boundaries of the proposed plant development coincide with the boundaries of applicant's present service area and therefore applicant is not required to obtain a certificate of public convenience and necessity from this Commission with respect to the installation.

Estimated Costs of Plant

The total estimated expenditures under applicant's program may be summarized as follows:

Construction		
Central office equipment -		
Dos Palos	\$111,300	
Dos Palos Y	46,700	
Oro Loma	<u>29,200</u>	
Total central office equipment		\$187,200
Outside plant		207,530
Subscriber installations		73,770
Land and buildings		48,000
Vehicles		2,200
Furniture and office equipment		1,500
Engineering fees--not spread		27,200
Contingencies--not spread		<u>40,000</u>
Total construction		587,400
Legal expenses and working capital		32,180
Refinancing		82,720
Cost of removal		<u>12,700</u>
	Total	715,000
Less: loan heretofore authorized		<u>254,000</u>
	Balance	<u>\$461,000</u>

Terms of Proposed Loan

Subject to receiving authorization from the Commission, applicant proposes to enter into an amendment to its loan contract and to borrow the additional sum of \$461,000 from the government, acting through the Rural Electrification Administration, said sum to be represented by 35-year promissory notes bearing interest at the rate of 2% per annum, it being provided that payment of interest may be deferred for a period of three years.

The amendment to the loan contract further provides, among other things, that the government shall not be obligated to advance

any of the increase of \$461,000 unless and until applicant shall have submitted to the Administrator evidence satisfactory to him that it has obtained all approvals of regulatory bodies having jurisdiction, including, without limitation, approval of the execution and delivery of notes for the additional loan.

Under the contract with the R.E.A. applicant is required at periodic intervals to submit requisitions setting forth its expenditures in detail in order to draw down funds under its allotment. While applicant at this time seeks the Commission's approval of the total amount of the commitment, it states that it will requisition only so much of the \$715,000 as may be needed.

Effect of Proposed Financing

In the event the application is approved and the notes issued, applicant's capital structure based on its March 31, 1953, balances, will be as follows:

R.E.A. loans	\$715,000
Preferred stock	50,000
Common stock and surplus	<u>90,494</u>
Total	<u>\$855,494</u>

The ratio of debt to total capitalization would be 83½%. Applicant submits that while the debt ratio is high it is not unreasonable under the circumstances surrounding this particular transaction for the reason that the R.E.A. loans will be payable over a period of 35 years, which is somewhat longer than loans from private institutions to public utility companies of similar size and capitalization, that the life of the loans is substantially the same as the rate at which depreciation is accrued, that the interest rate of 2%, when added to the payment required on principal, will impose no greater burden than would be the case for a loan providing for interest at the rate of 5%, and that interest may be deferred during the

construction period. It is also anticipated that the earning power of the system will be increased substantially when the expanded system is placed in operation.

The rehabilitation and expansion of the plant, according to exhibits filed in this proceeding, will have the following effect on the reported plant account balances:

	Plant Accounts	Retirements	Additions	Balance
Organization	\$ 592.50	\$ -	\$ -	\$ 592.50
Land & rights-of-way	5,397.15	-	7,430.00	12,827.15
Buildings	24,992.88	-	41,800.00	66,792.88
Central office equipment	52,983.68	45,000.00	187,200.00	195,183.68
Station apparatus	40,399.23	1,460.00	43,300.00	82,239.23
Station installations	12,192.23	-	18,319.00	30,511.23
Drop & block wires	4,868.89	-	7,851.00	12,719.89
PBX equipment	7,543.78	-	4,300.00	11,843.78
Telephone booths	628.04	-	-	628.04
Pole lines	59,600.02	15,840.00	56,920.00	100,680.02
Aerial cable	31,943.00	3,990.00	103,400.00	131,353.00
Aerial wire	10,167.56	-	45,980.00	56,147.56
Office equipment	7,220.20	-	1,500.00	8,720.20
Undistributed	3,610.70	-	-	3,610.70
Vehicles & work equipment	11,833.39	1,500.00	2,200.00	12,533.39
Engineering-not spread	-	-	27,200.00	27,200.00
Contingencies-not spread	-	-	40,000.00	40,000.00
Total plant	\$273,973.25	\$67,790.00	\$587,400.00	\$793,583.25

In Exhibit E applicant estimates its revenues and expenses following the cutover of the new plant, based on 2,000 average stations, as follows:

Total operating revenues	\$154,500.00
Operating expenses and taxes	<u>137,355.81</u>
Operating income	17,144.19
Fixed charges	<u>14,600.00</u>
Net income	<u>\$ 2,544.19</u>

According to the exhibit, the net income would amount to a return of 2.2% on an estimated rate base of \$771,484.33 following the installation of the new facilities. Applicant's witness testified under cross-examination that the company did not anticipate an

adjustment in its rates until its new plant was substantially cut-over. This witness also offered testimony to the effect that the company should operate profitably through the balance of this year and the next without an adjustment in its rates.

Conclusions

From a review of the record in this and in the earlier proceeding it appears that there exists an unfilled demand for telephone service in applicant's service area, that the present plant is inadequate to meet such demand, and that applicant is unable to finance the required capital additions through the use of funds provided by operations. It therefore is necessary that outside funds be procured and it is the contention of applicant's witness that the amounts cannot be procured through the issue of equity securities or borrowings from private institutions. The financing plan herein proposed by applicant will provide it with funds under conditions which in some respects will accrue to the benefit of the public. Among other things, there will be a ready availability of money for an extended construction period to provide a modern plant, there will be the long period of repayment of the debt which will approximate the average life of the plant, and there is the low interest rate charged which the Commission will consider in any rate proceeding involving applicant in the future. On the other hand, there are certain disadvantages which will follow the adoption of the proposed plan. The properties would be heavily mortgaged and it is apparent that applicant's program is based in part on the assumption that the Commission will allow increased rates to be placed in effect at a future date.

Considering all aspects of the proposed proceeding, we are of the opinion that it would not be in the public interest to withhold

our approval of this application. Accordingly, we are of the opinion, and hereby find, that the money, property or labor to be procured or paid for by the issue of the notes herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes, except costs of removal, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Dos Palos Telephone Co., Inc. may enter into an amendment to its telephone loan contract with the United States of America, such amendment to be in, or substantially in, the same form as that filed in this proceeding as Exhibit A.
2. Dos Palos Telephone Co., Inc. may execute and deliver to the United States of America, acting through the Rural Electrification Administration, its promissory notes in the principal amount of not exceeding \$461,000, the same to be secured by its existing mortgage of realty and chattels, for the purposes set forth in this application.
3. Dos Palos Telephone Co., Inc. 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.

4. Dos Palos Telephone Co., Inc. shall file with the Commission, for approval, a copy of each requisition filed with the Rural Electrification Administration for an advance of funds under its loan contract, such filing, in each case, to be made at or prior to the time of filing with the Rural Electrification Administration.

5. The authority herein granted will become effective when Dos Palos Telephone Co., Inc. has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$461.00.

Dated at San Francisco, California, this 15th day of September, 1953.

A. J. Induray
President

Justin J. Calmes
Harold D. Hula

Frederick Pitts
John E. McShill
Commissioners

