

ORIGINAL

Decision No. 49885

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
Coachella Valley Home Telephone &	:	
Telegraph Co., for an Order author-)	
izing it to borrow \$225,000 from the	:	Application
Pacific Mutual Life Insurance Company,)	No. 35329
to execute and issue a note, and to	:	
execute and deliver a Supplemental)	
Mortgage.	:	
-----)	

O P I N I O N

In this application the Commission is asked to make its order authorizing Coachella Valley Home Telephone & Telegraph Co. to execute a loan agreement with Pacific Mutual Life Insurance Company and a supplemental mortgage and to issue a note in the principal amount of \$225,000 for the purpose of paying indebtedness and of reimbursing its treasury.

Applicant is engaged in operating telephone systems in Riverside County. Information filed with the Commission shows that it has been experiencing a substantial growth in its properties and business to meet increasing demands of its subscribers. In its annual reports to the Commission it has set forth its increase in plant, its operating revenues and net income and its telephones in service for the years 1949 to 1953, inclusive, as follows:

	<u>Increase in Plant</u>	<u>Operating Revenues</u>	<u>Net Income</u>	<u>Telephones in Service</u>
1949	\$164,480	\$175,803	\$19,021	3,349
1950	144,441	207,066	24,571	3,925
1951	190,017	249,851	20,948	4,446
1952	164,049	335,846	42,153	5,020
1953	161,197	402,509	56,516	5,289

By Decision No. 46662, dated January 22, 1952, the Commission authorized applicant to adopt revised rate schedules, applicable

to service rendered on and after March 1, 1952, which were designed to produce an estimated return of 6.5% on the 1952 rate base of \$1,008,000.

It appears that applicant has obtained funds for its plant expansion from the issue of notes and stocks, the incurring of current obligations and the use of internal funds. It has not paid dividends on its common shares but has reinvested its earned surplus in its business. Its financial position as of February 28, 1954, as reflected by its balance sheet, is as follows:

<u>Assets</u>		
Investment in plant, less reserve		\$1,111,163
Current assets -		
Cash and deposits	\$ 17,921	
Accounts receivable	84,004	
Materials and supplies	19,216	
Prepaid expenses	9,025	
Total current assets		<u>130,166</u>
	Total	<u>\$1,241,329</u>
<u>Liabilities and Capital</u>		
Long-term debt		\$ 329,000
Current liabilities		340,721
Contributions of plant		17,412
Preferred stock		100,000
Common stock equity -		
Common stock	\$310,860	
Premium on stock	5,955	
Discount on long-term debt	(5,146)	
Surplus	142,527	
Total common stock equity		<u>454,196</u>
	Total	<u>\$1,241,329</u>

By Decision No. 49196, dated October 13, 1953, the Commission authorized applicant to issue and sell \$100,000 par value of its common stock for capital purposes. It appears applicant has been unsuccessful in disposing of the entire issue and up to the end of February, 1954, had sold about one-third of the authorized amount. It has met its requirements in part through incurring current

obligations and its balance sheet clearly indicates that it has need of funds from external sources to liquidate its current debt and to reimburse its treasury in order to improve its financial position. At the conclusion of the proposed debt financing, should it be approved and completed, applicant's capital ratios would be as follows:

Long-term debt	50%
Preferred stock	9
Common stock equity	<u>41</u>
Total	<u>100%</u>

Applicant estimates that during the five-year period from 1954 to 1958, inclusive, its earnings from operations will suffice to meet its capital requirements and sinking fund payments on its long-term debt. It has furnished the Commission with tabulations showing estimated net additions to its plant during the five-year period of \$535,275 and estimated earnings during the same period of \$565,744, after making provision for dividends on preferred stock and sinking fund payments.

The presently outstanding long-term debt of \$329,000 consists of mortgage notes issued to Pacific Mutual Life Insurance Company carrying interest at the rate of 4% and 4-1/4%. The proposed note, which is the subject of this application, will bear interest at the rate of 4-3/4% per annum, will be payable on or before May 1, 1974, and will carry a sinking fund obligation on the part of applicant in the amount of \$6,000 annually, commencing May 1, 1956. The note will be subject to prepayment at the option of the company at a premium of 4-3/4% if such prepayment is made prior to May 1, 1955, and at a premium reduced by 1/4 of 1% on May 1, 1955, and on May 1 of each year thereafter to but not including May 1, 1973, with no premium being required for prepayment on or after May 1, 1973.

The proposed interest rate is high, in the light of prevailing conditions, and if this transaction represented initial mortgage financing we might not be inclined to approve it. However, it is doubtful if applicant could realize any lower effective interest rate upon refinancing its present debt because of the prepayment penalties and other expenses which it would be called upon to meet. Furthermore, it appears that applicant will not be called upon to engage in additional debt financing for some time to come and in view of the circumstances surrounding this particular utility and this particular issue, we will enter an order authorizing the issue of the note as requested.

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 note 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. Coachella Valley Home Telephone & Telegraph Co., on and after the effective date hereof and on or before August 31, 1954, may execute a loan agreement and a mortgage of chattels and may issue a note in the principal amount of \$225,000 for the purposes indicated in this application. The documents to be executed shall be in, or substantially in, the same form as those filed in this proceeding.

2. Applicant shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

3. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$225.00.

Dated at San Francisco, California, this 4th day of May, 1954.

Richard L. Mitchell
 President

Justus J. Calmes

Lawrence P. Patten

Deane Roggens

 Commissioners
