

ORIGINAL

Decision No. 50072

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Gilroy Telephone Company, a)
California corporation, for an)
Order authorizing it to borrow)
\$275,000 from the Pacific Mutual)
Life Insurance Company and to)
execute a Mortgage upon all of)
its properties to secure said)
indebtedness.)
-----)

Application
No. 35373

Marshall K. Taylor, for applicant.

O P I N I O N

On April 21, 1954, Gilroy Telephone Company filed the above entitled application with the Commission for authorization to execute a loan agreement with Pacific Mutual Life Insurance Company and a deed of trust and mortgage of chattels and to issue a promissory note in the principal amount of \$275,000.

A public hearing was held before Examiner Coleman in San Francisco on May 10, 1954, at which time the matter was taken under submission.

The purpose of the proposed financing is to provide applicant with funds to finance the cost, estimated at \$275,000, of converting its exchange to dial operations, of financing the cost of land and an exchange building and of providing outside plant. The proposed facilities, according to the testimony, will provide service to approximately 3,000 primary telephones and will permit applicant to take about 600 additional subscribers on its lines. It appears

that applicant, after calling for bids, placed an order with Automatic Electric Company in January of 1953 for the new central office equipment, with installation and conversion being expected by June of 1955.

The proposed note by its terms will bear interest at the rate of 5% per annum and will be payable in installments of \$8,000 each on the first day of February of each year commencing February 1, 1956, and continuing, unless sooner repaid in full, until February 1, 1973. Prepayments may be made at an initial premium of 5%, decreasing annually at the rate of one-quarter of 1%. The payment of the note will be secured by a deed of trust and mortgage of chattels covering applicant's property.

The record shows that the commitment for this loan was obtained in the early part of 1953 when prevailing interest rates generally were higher. It appears from the testimony that an advance promise of funds was necessary to enable applicant to place its order and to undertake the purchase of the new central office equipment and that, in fact, applicant would not have been in a position to obligate itself for the improvements without the assurance the necessary financing would be available to it when needed. The record indicates that the commitment of funds was made under the best terms available at the time.

It is clear that the proposed facilities should improve the quality of applicant's service and should provide it with the plant capacity to meet the expected growth in its service area in the foreseeable future without substantial additional expenditures for plant. Under the circumstances as developed at the hearing we will enter an order authorizing the issue of the note.

The proposed loan agreement and trust indenture appear to be limited to borrowings of \$275,000. While it is not certain applicant will be required to engage in additional debt financing, for some time at least, it is our opinion that the form of the indenture should be modified so as to provide either for an open-end feature or for additional borrowings, in a reasonable amount, without the necessity of refinancing the initial loan.

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, 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. Gilroy Telephone Company may issue its promissory note in the principal amount of not exceeding \$275,000 in the form and for the purposes set forth in this application.

2. The authority herein granted will become effective when the Commission has authorized applicant to execute a deed of trust and a mortgage of chattels in the form filed in this proceeding, modified as indicated in the preceding opinion, and when applicant has paid the fee prescribed by Section 1904(b) of the

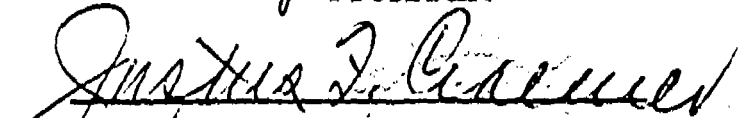
Public Utilities Code, which fee is \$275.00.

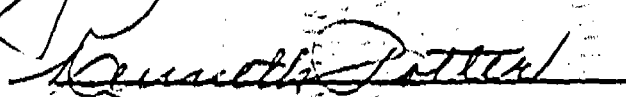
3. Applicant shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

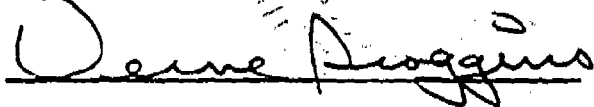
Dated at San Francisco, California, this 25th day of May, 1954.



President







Commissioners

