

ORIGINAL

Decision No. 53315

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 (a) to execute a loan	:	Application
agreement for \$350,000 with the)	No. 38079
PACIFIC MUTUAL LIFE INSURANCE COMPANY,	:	
(b) to execute and issue a note in)	
the amount of \$150,000, and (c) to	:	
execute and deliver a supplemental)	
mortgage.	:	
-----)	

O P I N I O N

In this application the Commission is asked to make an order authorizing Coachella Valley Home Telephone & Telegraph Co. to execute a loan agreement with Pacific Mutual Life Insurance Company, to execute a supplemental mortgage and to issue a note in the principal amount of \$150,000 for the purpose of obtaining funds to pay indebtedness, to reimburse its treasury, and to finance the cost of additions to its properties.

The proposed note will bear interest at the rate of 4-3/8% per annum, will be payable on or before July 1, 1976, and will be subject to prepayment at the option of the company at a premium of 4-1/2% if such prepayment is made prior to July 1, 1958, and at a premium reduced by 1/4 of 1% on July 1, 1958, and on July 1 of each year thereafter to July 1, 1975, with no premium being required for prepayment on or after July 1, 1975.

Applicant is engaged in operating telephone systems in Riverside County. Information filed with the Commission shows that there has been a substantial growth in its service area which is reflected in its volume of business and in its expenditures for plant to meet the increasing demand of the public for service. In

annual reports to the Commission it has set forth its operating revenues and net income during the last five years, the number of telephones in service at the end of each year, and the net increase in its plant accounts during each year, all as follows:

	<u>Increase in Plant</u>	<u>Operating Revenues</u>	<u>Net Income</u>	<u>Telephones in Service</u>
1951	\$190,017	\$249,852	\$20,948	4,446
1952	164,050	335,846	42,154	5,020
1953	161,197	402,509	56,516	5,289
1954	103,589	435,285	60,160	5,768
1955	197,736	497,569	81,118	6,331

In Decision No. 46662, dated January 22, 1952, the Commission reviewed applicant's operations and authorized it to adopt revised rate schedules applicable to service rendered on and after March 1, 1952, which rate schedules were designed to produce an estimated rate of 6.5% on a rate base of \$1,008,000 for the year 1952.

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 cash dividends on its common shares. However, under the authority of Decision No. 51178, dated March 8, 1955, it issued \$155,430 par value of common stock as a dividend to holders of its then outstanding common stock, for the purpose of reimbursing its treasury for moneys expended from income for additions, betterments and extensions to its facilities. Its financial position as of March 31, 1956, as reflected by its balance sheet, is as follows:

Assets

Investment -		
Telephone plant	\$1,704,728	
Less - reserve for depreciation	<u>378,501</u>	
Net investment		\$1,326,227
Current assets		142,502
Prepayments and deferred charges		<u>29,216</u>
		<u>\$1,497,945</u>

Liabilities and Capital

Long-term debt		\$ 533,000
Current and accrued liabilities		242,764
Deferred credits		21,146
Preferred stock		100,000
Common stock equity -		
Common stock	\$ 466,300	
Premium on stock	5,955	
Surplus	<u>128,780</u>	
Total common stock equity		<u>601,035</u>
		<u>\$1,497,945</u>

Applicant reports that during the 15 months ended March 31, 1956, it added 760 stations to its lines and increased its investment in plant by the sum of \$245,561. The application shows that the company did not engage in permanent financing during this period but that it met its capital requirements in part with \$80,000 of short-term bank borrowing and in part with earnings from operations and current obligations.

At this time, applicant seeks, through the proposed \$150,000 note issue, to liquidate its bank borrowings and to reimburse its treasury in part for monies invested in its properties. Its arrangements with Pacific Mutual Life Insurance Company provide for additional borrowings up to \$200,000, under certain conditions, to be made on or before June 30, 1957, although no request is made at this time for approval of such additional loans. Applicant does assert, however, that it will be called upon to make substantial additions to its facilities during the next several years and in Exhibit C it sets forth a construction program involving the expenditure of \$179,250 during 1956, \$405,200 during 1957, and \$186,770 during 1958. The exhibit indicates

that while substantial portions of these estimated expenditures will be paid with internal funds, nevertheless applicant will have to resort to external financing to carry the program to completion.

A review of the present application clearly indicates that the company has need for funds to meet its bank borrowings and that it has invested earnings from operations in its properties well in excess of the reimbursement it now seeks. The issue of the \$150,000 note as requested will improve applicant's cash position not only through the payment of the short-term loans but through the replenishment of its treasury. At the conclusion of the financing applicant's capital ratios will be as follows:

Long-term debt	49%
Preferred stock	7
Common stock equity	<u>44</u>
Total	<u>100%</u>

Upon the basis of the information now before us we will enter our order approving the present application. The authorization thus granted is for the issue of securities only and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates nor as an approval of the additional borrowings of \$200,000 which are contemplated by the terms of the proposed loan agreement.

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 December 31, 1956, may execute a loan agreement and a supplemental mortgage and may issue a note in the principal amount of \$150,000 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 \$150.

Dated at San Francisco, California, this 27th day of June, 1956.

[Signature]
President

Justus J. Calmes
[Signature]

Commissioners

