

ORIGINAL

Decision No. 53760

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SIERRA TELEPHONE COMPANY, INC.
(1) To enter into a loan agreement
with the United States of America
under and pursuant to the Rural
Electrification Act of 1936, as
amended, acting through the
Administrator of the Rural
Electrification Administration;
(2) To execute its promissory notes
to said United States of America in
the sum of \$353,000, said obligation
to bear interest at the rate of two
per cent per annum;
(3) To execute and deliver a mortgage
of realty and chattels covering all
of the properties of applicant as
security for the payment of said
obligation;
(4) To apply the proceeds derived
from said notes to the expansion,
rehabilitation and improvement of
the plant and facilities of said
company and to the discharge of
certain obligations of the company.

Application No. 38214

Neal C. Hasbrook, for Applicant;
J. J. Deuel and Bert Buzzini, by
Bert Buzzini, for California Farm
Bureau Federation, interested party;
James M. McCraney and L. L. Thormod,
for the staff of the Commission.

O P I N I O N

This is an application for an order authorizing Sierra Telephone Company, Inc., (1) to enter into a loan agreement with the United States of America under and pursuant to the Rural Electrification Act of 1936, as amended, (2) to execute and deliver a mortgage of realty and chattels, and (3) to issue promissory notes in the aggregate principal amount of \$353,000.

The application was filed on July 3, 1956. A public hearing was held before Examiner Coleman in San Francisco on August 23, 1956, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant is a public utility corporation engaged in furnishing exchange and toll service to approximately 315 subscribers in unincorporated areas in Madera County. Currently, it operates a magneto manual exchange at Raymond and a dial exchange at Oakhurst and it reports its total investment in its utility plant at \$107,369, as of December 31, 1955, with a related depreciation reserve of \$50,137.

The record shows that applicant has concluded it is desirable, if not necessary, to convert to full dial operation, to add to its outside plant, to make other improvements in its facilities and service and to refinance existing indebtedness, all at an estimated cost of \$353,000 segregated as follows:

<u>Construction</u> ^{1/}		
Land and buildings	\$ 6,000	
Central office equipment	62,000	
Station equipment	33,000	
Outside plant	<u>140,000</u>	
Subtotal		\$241,000
Engineering		24,500
Furniture and office equipment		2,300
<u>General Overheads</u>		
Construction overhead	\$ 12,000	
Preloan engineering	3,500	
Other preloan expenditures	<u>3,475</u>	
Subtotal		18,975
Removal costs		10,000
<u>Refinancing and Debt Retirement</u>		
Refinancing with loan funds		34,977
Contingencies		<u>21,248</u>
Total		<u>\$353,000</u>

^{1/} 44.4% of construction for improvement of system and 55.6% for facilities to serve new subscribers.

Applicant intends to finance its costs by means of R.E.A. financing. It proposes to enter into a loan contract providing for borrowings in the total amount of \$353,000, the same to be represented by notes payable over a period of 35 years, with interest at the rate of 2% per annum, payment to be secured by mortgage placed on the properties. A copy of the telephone loan contract has been filed in this proceeding as Exhibit "I", a copy of the mortgage as Exhibit "J", and a copy of the form of note as Exhibit "H".

It appears that a conventional R.E.A. telephone loan is contemplated. The contract will provide for detailed supervision by the R.E.A. and, under its terms, will require the company to deposit all monies in a special bank account to be withdrawn upon approval of the R.E.A. administrator. The company will be required to construct its facilities under contract with a responsible contractor approved by the administrator and generally to invite bids for construction work, unless otherwise permitted. The contract also will provide for the appointment of an engineer and manager, subject to the approval of the administrator, and for inspection by the administrator.

A review of the record indicates that the company's proposed plans for the improvement and extension of its facilities provide for a long range program which should accrue to the benefit of the public. The program will provide ready availability of money, will permit the construction of a modern plant, equipped with dial operation, and will enable applicant to extend its lines to prospective subscribers to whom telephone service is not available at this time, and to improve its service. It is recognized that the properties will be heavily mortgaged, but, in this respect, the

program does not differ from other R.E.A. financing programs heretofore approved by the Commission for telephone utilities. A large proportion of debt capital apparently is inherent in R.E.A. financed and approved operations.

We are of the opinion it would not be in the public interest to withhold approval of the matter now before us. However, it is clear that the final amounts of the construction costs have not been determined and it is likely that the ultimate construction may follow along lines somewhat different from the program outlined in this proceeding. In view of these circumstances, we will authorize the issue of the notes but will require applicant to deposit such proceeds as it may receive in a special bank account, to be withdrawn only for such purposes as the Commission may authorize in a supplemental order, or orders, upon the filing by applicant of copies of its requisitions to draw down funds.

A review of the evidence shows that the telephone loan contract has been drawn up on the theory that the telephone company will furnish adequate service to the greatest practicable number of rural users, subject to the terms and conditions of the company's filed rates, rules and regulations, and it is estimated that within five years more than 500 subscribers will be attached to the lines. It is noted, specifically in this connection, the contract provides that"service shall be furnished pursuant to terms and conditions set forth in the Borrower's tariff, as duly filed with or approved by regulatory bodies having jurisdiction in the premises" Applicant is placed on notice that, in approving the application at this time, we are in no way passing on its rates or approving any revisions of its presently filed rules and regulations and that we

will require it to abide by the terms of such rules and regulations, including those for line extensions. In the event we may be called upon to fix rates in the future, we will give consideration at that time to applicant's established and approved investment in its properties and to the terms under which it has financed itself.

The authorization herein given is for the issue of securities only and is not to be construed to be indicative of amounts to be included in a rate base for the purpose of determining just and reasonable rates.

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 notes herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Sierra Telephone Company, Inc., may enter into a telephone loan contract in, or substantially in, the same form as that filed in this proceeding as Exhibit "I", and may execute a mortgage in, or substantially in, the same form as that filed in this proceeding as Exhibit "J".

2. Sierra Telephone Company, Inc., may issue not exceeding \$353,000 of its promissory notes in, or substantially in, the same form as the note filed in this proceeding as Exhibit "H", and pursuant to the terms of said contract and mortgage, shall use the proceeds from the issue of said notes for the purposes indicated in this proceeding.

3. Sierra Telephone Company, Inc., shall deposit the proceeds from the issue of the notes herein authorized in a special bank account and withdraw the same only for such purposes as the Commission may authorize in a supplemental order, or orders, in this proceeding.

4. Sierra Telephone Company, Inc., shall file with the Commission a monthly report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

5. The authority herein granted will become effective when Sierra Telephone Company, Inc., has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$353.

Dated at San Francisco, California, this 18th day of September, 1956.

Victor E. Mitchell President
James F. Coe
Paula Winters
Walter D. Dool
R. Hardy

Commissioners
 PUBLIC UTILITIES COMMISSION
 STATE OF CALIFORNIA
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