ORIGINAL

Decision No. 54063

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN JOAQUIN TELEPHONE COMPANY a California corporation, for authority to issue and sell securities.	Application No. 38433

Talbot Kendall, for Applicant;
Bert Buzzini, for California Farm Bureau Federation, interested party;
William W. Dunlop and John F. Donovan, for the staff of the Commission.

OPINION

In this application San Joaquin Telephone Company seeks authorization to issue and sell $500,000 of 6% income debentures due 1974.

The application was filed on September 21, 1956. A public hearing was held before Examiner Coleman in San Francisco on October 11, 1956, at which time the matter was taken under submission.

Applicant operates a telephone system in the County of San Joaquin, the physical properties including dial equipment at Ripon and manual equipment at Manteca. It reports results of operations during the last three years as follows:

	1954	1955	1956 (7 Months)
Total stations, Dec. 31	4,174	4,236	4,419
Operating revenues	$310,895	$394,465	$238,535
Gross income	32,786	53,460	34,693
Interest	18,209	32,019	17,500
Net income	14,577	21,441	17,193
Preferred dividends	17,500	17,500	8,715
Balance	(2,923)	3,941	8,478

A summary statement of applicant's assets, liabilities and capital as of July 31, 1956, is as follows:

Assets

Telephone plant (incl. work in progress)	$886,155	
Less: Depreciation reserve	138,359	
Net telephone plant		$747,796
Current assets -		
Cash and working funds	$ 80,557	
Accounts receivable	25,914	
Materials and supplies	62,904	
Total current assets		169,375
Prepaid expenses and deferred charges		62,683
Total		$979,854

Liabilities and Capital

Long-term debt		$500,000
Current liabilities		91,140
Deferred credits		9,432
Preferred stock		249,000
Common stock equity -		
Common stock	$100,000	
Surplus	30,282	
Total common stock equity		130,282
Total		$979,854

It appears that applicant has financed itself primarily with senior securities consisting of debentures similar in form to those now proposed to be offered and shares of 7% preferred stock. Applicant's capital ratios as of July 31, 1956, and as adjusted to give effect to the present financing, are as follows:

	July 31, 1956	Pro forma
Long-term debt	56.87%	72.50%
Preferred stock	28.32	18.05
Common stock equity	14.81	9.45
Total	100.00%	100.00%

Applicant's outstanding common shares are closely held by individuals who own and lease to applicant the premises where the central office equipment is located. Applicant has not paid dividends on its common shares.

The record shows that during the last ten years applicant has made substantial additions to its plant and improvements to its service and that presently it has no held orders either for new services or for upgrading existing services. It reports that it has concluded it is desirable and necessary for it to make further improvements by converting its Manteca exchange to dial operations and to make further extensions of its lines to reach additional subscribers and it has filed, as Exhibit E, a statement of a five-year construction program calling for expenditures as follows:

North 99 Highway	$ 31,770
Northeast Manteca-North 99 to East 120	23,620
Northeast Manteca City	21,000
North of 120 - Mylnar and 99	11,890
South Manteca City	11,800
South Manteca Road	26,010
Distribution - Union Road and 120	17,900
Locust-Michigan-Veach Distribution	16,480
Northwest Manteca	22,350
Main Alley East	17,520
Distribution - Ripon City	11,660
Main Alley West	31,300
C.O. Cable, Trucks, Phones (500 per year for five years), Dials, pay phones	246,690
Rural Distribution	46,200
Total	$536,190

The estimated expenditures include only $30,000 of costs associated with the dial conversion. According to the testimony, applicant does not contemplate purchasing dial central office equipment but is undertaking negotiations with Stromberg-Carlson Company to lease such equipment, without option to buy, for a ten-year period, subject to renewal, at a monthly rental of $4,400. The owners of the building will finance in part the cost of the improvements and alterations necessary to accommodate the new apparatus.

Upon reviewing the record in this proceeding, we are impressed with certain aspects of the proposed financing, including the following:

1. There is no definite showing as to when the construction jobs listed in Exhibit E will be commenced and no assurance that all such jobs will be undertaken and completed or if the construction is required at this time. It is applicant's intention to spread the sale of the debentures over a five-year period at the rate of approximately $100,000 a year and to use the proceeds when and if they become available to meet the estimated construction costs.

2. The record is not clear as to the necessity for obtaining external funds at this time or in the immediate future in view of the large cash balances which applicant maintains and the insufficient showing with respect to the programing of the extensions.

3. There is no assurance that applicant can complete the negotiations to lease the central office equipment or that the Commission will approve such a transaction.

4. In the event the central office acquisition is completed and approved, there appears to be no reason why applicant cannot use treasury funds instead of borrowed monies to take care of the minor expenditure of $30,000 with which it will be faced in connection with the dial conversion.

5. There is no evidence showing the amount of the expenditures necessary to improve and enlarge the building which will house

the central office equipment or the increased rent applicant will be required to pay.

6. There is nothing in the record as to the ability of the company to meet the fixed charges associated with the debentures it proposes to issue.

In the absence of definite and conclusive evidence upon these matters, it is not clear to us that we can make the statutory finding required by law with respect to the reasonableness of the proposed issue. Moreover, the issue of additional debentures at this time will aggravate applicant's already unbalanced capital structure, as shown by the comparative statement of capital ratios heretofore set forth. In our opinion, applicant should undertake to obtain additional equity capital either through the sale of shares of common stock or through the issue of shares in exchange for properties it now operates but does not own.

ORDER

A public hearing having been held on the above-entitled matter and the Commission being of the opinion that the evidence does not warrant the granting of the application; therefore,

IT IS HEREBY ORDERED that Application No. 38433 be, and it hereby is, denied.

Dated at San Francisco, California, this 13th day of November, 1956.

Commissioner Rex Hardy, being necessarily absent, did not participate in the disposition of this proceeding.

Peter E. Mitchell
President

Ray E. Untereiner

Matthew J. Dooley

C. Lyn Fox

Commissioners