

ORIGINAL

Decision No. 54344

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 MARIPOSA COUNTY 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 Electri-)
 fication Administration; :
 (2) To execute its promissory notes to)
 said United States of America in the :
 sum of \$374,000, 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.)
 ----- :

Application
No. 38496

Neal C. Hasbrook, for Applicant;
J. J. Deuel, for California Farm Bureau
 Federation, interested party; John F.
Donovan and James M. McCraney, for the
 staff of the Commission.

O P I N I O N

This is an application for an order authorizing Mariposa County 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 \$374,000.

The application was filed on October 11, 1956. A public hearing was held before Examiner Coleman in San Francisco on December 13, 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 telephone service to approximately 310 subscribers in unincorporated areas in Mariposa County. It reports that the population in the county is increasing and that it is necessary for it to expand its facilities to meet the demand for telephone service and to extend its lines to provide service in sections of the exchange area where facilities do not exist at this time. It estimates the cost of its capital requirements for these purposes to be as follows:

<u>Construction</u> ^{1/}		
Land and buildings	\$ 28,000	
Central office equipment	33,135	
Station equipment	46,370	
Outside plant	<u>187,725</u>	
Subtotal		\$295,230
<u>Engineering</u>		24,600
<u>Operations Equipment</u>		
Furniture and office equipment	2,300	
Vehicles and work equipment	<u>6,000</u>	
Subtotal		8,300
<u>General Overheads</u>		
Construction overhead	13,200	
Preloan engineering	5,500	
Other preloan expenditures	<u>4,250</u>	
Subtotal		22,950
<u>Working Capital and Miscellaneous Items</u>		
Working cash	1,400	
Removal costs	<u>5,000</u>	
Subtotal		6,400
<u>Contingencies</u>		<u>18,840</u>
Total		376,320
Less: Equity funds		<u>2,320</u>
Total Loan Funds		<u>\$374,000</u>

^{1/} 32.9% of construction for improvements of system and 67.1% 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 of not to exceed \$374,000, 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". Applicant asserts it will draw down only such portion of the available loan as may be required and that the loan contract provides that any unexpended advances shall be remitted to the government and credited against the notes.

It appears 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 hold all monies advanced to it in trust for the government and to deposit them in a special bank account to be withdrawn upon approval of the R.E.A. administrator of requisitions submitted to him. 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 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 practical number of rural users, subject to the terms and conditions of the company's filed rates, rules and regulations, and it is estimated that more than 800 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....." In a letter dated September 18, 1956, filed as Exhibit "K", the R.E.A. has advised applicant's president that the company's existing line extension provisions, if ordered to be continued by the Commission, are satisfactory to the R.E.A. and would not constitute a violation of the loan contract.

The company's 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 low interest cost 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 is in the public interest for applicant to undertake to extend and improve its facilities and service. However, it is clear that the final amounts of the construction costs have not been and cannot be determined at this time and that it is likely the ultimate construction may follow along lines and at costs differing somewhat from those outlined in this proceeding. According to the record, certain existing facilities belonging to the Forest Service and to others may be utilized in the proposed

line extensions, in which event the amount of the borrowings will be reduced. Moreover, it appears that the construction program contemplates extensions into territory within the service area of Sierra Telephone Company, Inc.,^{2/} a public utility corporation controlled through stock ownership by applicant's shareholders, and within the service area of Hornitos Telephone Company.

In view of these circumstances we will enter a conditional order at this time generally indicating approval of the financing program and authorizing the issue of the notes but requiring applicant to file with the Commission copies of its requisitions on the R.E.A. administrator to draw down funds and to obtain supplemental authorization for the disposition of the proceeds. No authorization is hereby given applicant to extend its lines into service areas of other telephone utilities until such utilities have agreed upon a realignment of the service area boundaries and the Commission has given its approval.

Applicant is placed on notice that, in approving the application at this time, we are not 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, unless and until otherwise authorized or directed by the Commission. 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.

^{2/} By Decision No. 53760, dated September 18, 1956, the Commission authorized Sierra Telephone Company, Inc., to engage in R.E.A. financing and to issue \$353,000 of notes. The construction program presented by Sierra Telephone Company, Inc., did not provide for extensions into that portion of its service area which is included in the present program submitted by Mariposa County Telephone Company, Inc.

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 purpose specified herein, and that such purpose, except as otherwise authorized, is not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Mariposa County 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. Mariposa County Telephone Company, Inc., may issue not exceeding \$374,000 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 and subject to further authorization, shall use the proceeds from the issue of said notes for the purpose of expanding, rehabilitating and improving its facilities and service.

3. Mariposa County 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. Mariposa County 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 Mariposa County Telephone Company, Inc., has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$374.

Dated at San Francisco, California, this 8th day of JANUARY, 1957.

[Signature]
 President

[Signature]

[Signature]

[Signature]

[Signature]
 Commissioners

