

ORIGINAL

Decision No. 54467

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
TUOLUMNE TELEPHONE CO.

- (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 \$202,000, 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. 38725

O P I N I O N

This is an application for an order authorizing Tuolumne Telephone Co. (1) to enter into a loan contract 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 \$202,000.

Applicant is a public utility corporation engaged in furnishing magneto manual exchange telephone service to approximately 425 subscribers in unincorporated areas in Tuolumne County. It

reports that the population in the county is increasing, that its existing facilities cannot be expanded to meet the demand for telephone service and that it will be required to replace virtually its entire plant to provide service to additional subscribers. It proposes to install a dial central office to be housed in a new building, to make additions to and replacements of its outside plant, and to refinance existing indebtedness, at a total cost of \$207,000, segregated as follows:

<u>Construction</u> ^{1/}		
Land and buildings	\$21,000	
Central office equipment	39,300	
Station equipment	34,500	
Outside plant	60,900	
Subtotal		\$155,700
<u>Engineering</u>		12,000
<u>Operating Equipment</u>		
Furniture and office equipment	2,300	
Vehicles and other work equipment	3,500	
Subtotal		5,800
<u>General Overheads</u>		
Construction	7,000	
Preloan engineering	2,000	
Other preloan expenditures	3,470	
Subtotal		12,470
<u>Working Capital and Miscellaneous Items</u>		
Working cash	1,186	
Removal costs	2,400	
Subtotal		3,586
<u>Refinancing and Debt Retirement</u>		
Refinancing with loan funds	3,000	
Debt retirement with equity funds	5,000	
Subtotal		8,000
<u>Contingencies</u>		9,444
Total		\$207,000
Less: Equity funds		5,000
Total loan funds		<u>\$202,000</u>

^{1/} 65.5% of construction for improvement of system and
34.5% of construction for facilities to serve new subscribers.

Applicant intends to finance its costs, in excess of the \$5,000 provided by equity capital, by means of R.E.A. financing. It proposes to enter into a loan contract providing for borrowings of not to exceed \$202,000, 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 G, a copy of the mortgage as Exhibit H, and a copy of the form of note as Exhibit F. Applicant is expected to utilize only such portion of the available loan as may be required and 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 by 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 approximately 500 subscribers will be attached to the lines during the first year of

dial operations. 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 November 30, 1956, filed as Exhibit J, 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. 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.

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.

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

ORDER

The Commission having considered this application and being of the opinion that a public hearing is not necessary, 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. Tuolumne Telephone Co. may enter into a telephone loan contract in, or substantially in, the same form as that filed in this proceeding as Exhibit G, and may execute a mortgage in, or substantially in, the same form as that filed in this proceeding as Exhibit H.

2. Tuolumne Telephone Co. may issue not exceeding \$202,000 of its promissory notes in, or substantially in, the same form as the note filed in this proceeding as Exhibit F, 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, of refinancing indebtedness and of providing working capital.

3. Tuolumne Telephone Co. 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. Tuolumne Telephone Co. 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 Tuolumne Telephone Co. has paid the fee prescribed

by Section 1904(b) of the Public Utilities Code, which fee is \$202.

Dated at San Francisco, California, this 5th day of FEBRUARY, 1957.

W. L. ...
 President

Ralph ...

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Commissioners

PUBLIC UTILITIES COMMISSION
 STATE OF CALIFORNIA

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BY *...*