

ORIGINAL

Decision No. 54572

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  
Debentures.

Application No. 38705

Bacigalupi, Elkus & Salinger, by Charles  
de Y. Elkus, Jr., for applicant;  
William W. Dunlop and Albert Ehrman, for  
the Commission staff.

O P I N I O N

San Joaquin Telephone Company, a corporation, has filed this application for authorization to issue and sell \$210,000 of its 6% Non-Cumulative Income Debentures due June 1, 1974.

The application was set down for public hearing before Examiner Coleman on January 25, 1957, at which time evidence was received and the matter taken under submission. No protests in the proceeding have been presented to the Commission.

Applicant operates a public utility telephone system in the County of San Joaquin, its facilities including a manual central office switchboard at Manteca and a dial switchboard at Ripon. In 1953 the Commission reviewed applicant's operations and in Decision No. 48147, dated January 13, 1953, called attention to delays in furnishing service and directed the company to arrange its plant and construction program to serve all applicants for service on a current basis by June 30, 1954.

The record in the present proceeding shows that following the Commission's decision the company undertook to improve its plant and service. It installed the dial switchboard at Ripon, extended and improved its outside plant and became current with respect to its orders for service by October, 1953, or eight months in advance of the time limit specified by the Commission, and has remained current since that time. It appears that during the four years that have elapsed since the Commission issued Decision No. 48147, the company has doubled its investment in plant, has increased its stations from approximately 3,500 to approximately 4,500 and has been compelled to increase its investment per station from \$127 in 1952 to approximately \$200 in 1956.

In order to obtain capital funds to enable it to comply with the Commission's order and to improve and enlarge its plant, applicant issued and sold debentures and shares of preferred stock, primarily within its service area, and retained its surplus in its business, no distribution having been made to common shareholders. Its capital structure, as of October 31, 1956, is shown in the following tabulation:

Debentures	- 6%	\$500,000	55.89%
Preferred stock	- 7%	249,000	27.83
Common stock equity	-	<u>145,580</u>	<u>16.28</u>
Total		<u>\$894,580</u>	<u>100.00%</u>

Applicant's financial position as reflected by its balance sheet, as of October 31, 1956, is as follows:

<u>Assets</u>		
Telephone plant less reserve		\$777,421
Current assets -		
Cash and working funds	\$92,223	
Accounts receivable	25,340	
Materials and supplies	<u>46,803</u>	
Total current assets		164,366
Prepaid expenses and deferred charges		<u>53,150</u>
Total		<u>\$994,937</u>
<u>Liabilities and Capital</u>		
Long-term debt		\$500,000
Current liabilities -		
Accounts payable	\$29,610	
Accruals	<u>69,122</u>	
Total current liabilities		98,732
Deferred credits		1,625
Preferred stock		249,000
Common stock and surplus		<u>145,580</u>
Total		<u>\$994,937</u>

It appears that applicant now desires to make further improvements and additions to its plant. It proposes to convert its operations at Manteca from manual to dial, to extend its outside plant and to make provision for the installation of 300 more telephone stations. At this time it is undertaking to obtain the use of dial switchboard facilities from Stromberg-Carlson Company by lease arrangements calling for a total rental of \$528,000, payable at the rate of \$4,400 per month over a period of ten years, or by some other arrangements, and it intends to inaugurate a selling campaign in order to dispose of debentures through its own organization in order to finance its own capital costs during 1957.

Specifically, applicant seeks authorization to sell \$210,000 of debentures at not less than 90 per cent of their face value and use the proceeds as follows:

To pay for plant -		
Pole lines and related costs	\$110,109	
Telephones	18,500	
Motor vehicle equipment	3,450	
Switching equipment at Ripon	<u>11,464</u>	
Subtotal	\$143,523	
Costs incident to dial conversion	<u>27,236</u>	
Total plant costs		\$170,759
To reimburse treasury		<u>20,608</u>
Total		<u>\$191,367</u>

In addition to the projects represented by the expenditures referred to in the preceding tabulation, applicant reports it will be called upon to make additions and betterments of a routine nature during 1957 which will require the expenditure of about \$25,000.

At the hearing, applicant presented testimony concerning its financial position and setting forth in some detail the composition of and the necessity for the proposed expenditures for plant, including the so-called routine expenditures.

As to the financial aspects of this proceeding, the record shows that it has been applicant's practice to maintain substantial cash balances and that its cash and working funds aggregated \$92,223, as of October 31, 1956, after payment for the first installment of the ad valorem taxes for the current tax year.<sup>1/</sup> Upon inquiry, it developed that the cash balances

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<sup>1/</sup> A witness testified that no interest was received by the utility on the cash balances maintained in banks and savings and loan associations.

include \$38,248 which applicant has set aside and carries in special bank accounts to meet its ad valorem and state and federal taxes on income when they become payable. Excluding these special bank accounts from the total cash balances would leave a remainder, as of October 31, 1956, of approximately \$54,000 available for general corporate purposes, including construction.

While the record is clear that applicant's present and prospective subscribers require and will require the company to expand and improve its outside plant facilities, a consideration of its cash position raises some question as to the extent of the required external financing. It appears, from a review of the record, that the cash balances, disregarding the amounts reserved to pay taxes, represent more than two months' operating expenses exclusive of taxes, depreciation and rents paid to applicant's common shareholders, that applicant seeks to add \$20,608 of debenture proceeds to its treasury cash by the reimbursement process as now proposed, and that applicant will generate during 1957 at least \$36,300 of internal funds, representing charges for depreciation, which will be available for construction purposes.

Upon reviewing the record we observe that although the Commission repeatedly has admonished applicant to obtain additional equity capital, either through the sale of shares of common stock or through the issuance of shares in exchange for properties it now operates but which are owned by the sole owners of the presently outstanding common stock, applicant has failed, in the present proceeding, to come forward with any plan to

improve its financial position, despite the already large preponderance of senior securities in its financial structure, the continuing necessity of raising substantial sums of money for other purposes, and the heavy commitments to pay interest on debentures and dividends on the preferred stock. Moreover, and especially considering these circumstances, it appears to us that applicant has failed to present the economic justification for converting its Manteca exchange to dial operation at this time, either by purchase or by lease, nor has it presented persuasive evidence in this proceeding upon which the Commission could conclude that applicant should be authorized to dispose of its debentures at a discount or use debenture proceeds to pay the \$27,236 of costs incident to dial conversion. It further appears to us that, in reporting its financial plans, applicant has not given full consideration to the internal funds which are available, and will become available, for construction purposes during 1957.

We are of the opinion, therefore, that no authorization should be given applicant to use debenture proceeds to pay the \$27,236 of costs incident to dial conversion. We are further of the opinion that applicant will have need for funds to meet the reported expenditures of \$143,523 for outside plant and related items as set forth in the tabulation appearing earlier in this decision and, after reimbursing its treasury, to pay for the other additions to plant as detailed at the hearing. In considering the need for funds recognition should be given to those funds available from internal sources and it appears to us that the maximum amount of debentures as to which we can make the statutory finding of reasonableness is \$130,000.

The order herein will authorize applicant to issue \$130,000 of debentures. The order is limited to the issue of securities 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.

O R D E R

A public hearing having been held in this proceeding and the Commission having considered the matter and being of the opinion that the money, property or labor to be procured or paid for by the issue of \$130,000 of debentures 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. San Joaquin Telephone Company may issue and sell not exceeding \$130,000 of its 6% Non-Cumulative Income Debentures on or before December 31, 1957, at not less than the principal amount and use the proceeds for the purpose of reimbursing its treasury and of financing, in part, the estimated costs of \$143,523 for additions to its plant.

2. San Joaquin Telephone Company 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 San Joaquin Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$130.

✓ 4. In all other respects the application is denied.

Dated at San Francisco, California, this 19<sup>th</sup> day of March, 1957.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]  
Commissioners

Commissioner Ray E. Untereiner, being necessarily absent, did not participate in the disposition of this proceeding.

PUBLIC UTILITIES COMMISSION  
STATE OF CALIFORNIA  
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BY [Signature]