

Decision No. 55457

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of THE SISKIYOU TELEPHONE COMPANY
for authority to sell and issue
400 shares of its preferred
stock, \$50.00 par value, 6%

Application No. 38996

In the Matter of the Application
of THE SISKIYOU TELEPHONE COMPANY

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 \$797,000.00, 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. 38997

H. A. Dannenbrink, for applicant;
J. J. Deuel and Joseph Q. Joynt,
by Joseph Q. Joynt for California
Farm Bureau Federation, Neal C.
Hasbrook, for California Independent
Telephone Association, and Kenneth
Johnson, a subscriber, interested
parties; and J. E. Brown, for the
Commission's staff.

O P I N I O N

In Application No. 38996, The Siskiyou Telephone Company seeks authorization to issue \$18,000 par value of its 6% cumulative

preferred stock in repayment of amounts advanced by its shareholders and used for capital improvements.

In Application No. 38997, The Siskiyou Telephone Company reports that it is undertaking negotiations to obtain R.E.A. funds and it seeks authorization to enter into a loan contract with the United States of America, to execute a mortgage, and to issue notes in an amount not exceeding \$797,000.

A public hearing on the two applications was held before Commissioner Mitchell and Examiner Coleman in Yreka on August 15, 1957, at which time they were taken under submission. The Commission has received no protests in the proceedings.

Applicant owns and operates a system furnishing telephone exchange service in and about Fort Jones, Hamburg, Etna, Happy Camp, Horse Creek and Sawyers Bar and between these areas and the Yreka exchange of The Pacific Telephone and Telegraph Company, and also furnishing telegraph service between these areas and the offices of The Western Union Telegraph Company in Redding. In its 1956 annual financial statement it reported 834 telephones in service, operating revenues of \$72,678 and net income of \$1,959. It reported its assets, liabilities and capital, as of December 31, 1956, as follows:

Assets

Current assets -		
Cash	\$ 3,242	
Accounts receivable	4,050	
Materials and supplies	<u>16,893</u>	
Total current assets		\$ 24,185
Telephone plant, less reserve		136,273
Deferred charges		<u>27,581</u>
Total		<u>\$188,039</u>

Liabilities and Capital

Accounts payable		\$ 38,618
Notes payable		60,478
Capital -		
Common stock	\$10,000	
Assessment	6,957	
Surplus	<u>71,986</u>	
Total capital		<u>88,943</u>
Total		<u>\$188,039</u>

Applicant now asserts it has need for additional capital to refinance outstanding indebtedness and to convert to dial operations, to rebuild its existing lines, and to provide adequate facilities for anticipated expansion. Subject to receiving authorization from the Commission, it proposes to issue \$18,000^{1/} of preferred stock to pay amounts advanced by shareholders and to enter into a loan contract to obtain \$797,000 of R.E.A. funds for the following purposes:

^{1/} Although Application No. 38996 includes a request to issue \$20,000 par value of stock it appears that the issue of only \$18,000 is contemplated at this time. If applicant desires to issue the remaining \$2,000 of stock at some future date it should file an appropriate application for authorization to do so.

Construction -		
Central office equipment	\$170,930	
Outside plant and station equipment	390,907	
Right-of-way	6,579	
Land and buildings	<u>17,600</u>	\$586,016
Engineering		46,100
Office, vehicle and work equipment		8,500
General overheads -		
Preloan engineering	\$ 7,400	
Other preloan expenses	3,000	
Construction overhead	29,300	
Legal	<u>7,970</u>	47,670
Operating capital		15,521
Debt retirement		56,087
Contingencies		<u>37,106</u>
 Total		 <u>\$797,000</u>

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 will require the company to place all moneys advanced to it 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 will provide for the appointment of an engineer and manager, subject to the approval of the administrator, and for inspection by the administrator.

Complaints have been registered about the service rendered by applicant. The record clearly shows that service, at least in certain portions of the territory, has been inadequate, that the facilities have been in need of repair, and that extensions are required to take care of the increasing population. In attempting

to meet the problems now facing it, the company has consulted with the R.E.A. and proposes to embark upon a program designed to provide a modern plant adequate to serve approximately 1,230 subscribers. It is reported, among other things, that the present four magneto offices will be replaced by four dial central offices, approximately 70 per cent of the outside plant will be rebuilt and initially there will be installed 11 carrier circuits and one physical circuit from Fort Jones to Yreka for company toll traffic as well as other improvements. It is anticipated that the modernization and construction program will be completed by the early part of 1959.

The loan contract with the R.E.A. has been drawn up on the theory that the telephone company is to furnish adequate service to the greatest practical number of rural users, subject, of course, to the terms and conditions of the company's filed rates, rules and regulations. Section 4.5 of 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 . . ." and, in Exhibit K, the acting administrator has advised applicant's president that the existing line extension provisions, if ordered to be continued by this Commission, are satisfactory to the R.E.A. and will not constitute a violation of the loan contract.

A review of the record clearly shows that applicant's proposal is in the public interest in that it will provide ready availability of low interest cost money and will permit the extension of the telephone lines to prospective subscribers to whom

service is not now available and at the same time will enable applicant to liquidate its present obligations, some of which are past due, and to improve the quality of 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.

In making our order approving the present proceedings we place applicant upon notice that we are not passing on its rates nor authorizing any revisions of its presently filed rules and regulations and that we will require it to abide by the terms of its rates, 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, however, is for the issue of securities only 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.

Although applicant is seeking an order to issue \$797,000 of notes, it appears that construction will extend over a considerable period and that the final amounts of the construction costs have not been and cannot be determined at this time. At the outset, the company intends to draw down \$187,000 of proceeds to pay present debts, to cover engineering, legal and other expenses, to provide for the purchase of land and buildings and to permit the acquisition of office equipment. From time to time thereafter the balance of

the loan commitment will be subject to requisitions on the R.E.A. as work progresses. In line with our usual practice in matters of this nature, we will require applicant to file copies of its requisitions and to obtain supplemental authorization to dispose of the note proceeds.

The staff of the Commission has made a comprehensive study of applicant's service area, its operations and its existing plant facilities and an investigation of complaints of subscribers and has presented the results of such study and investigation in a report which was filed in these proceedings as Exhibit 1. The record indicates that applicant has taken some steps to improve operational conditions but that full correction will not be accomplished until completion of the R.E.A. financed program which is outlined in the matters now before us. Pending such completion, applicant will be expected, of course, to effect such improvements in its service, particularly in the transmission on the present toll line between Happy Camp and Fort Jones, as it can in line with sound business practice and without interfering with or unduly duplicating the over-all rehabilitation program to be undertaken upon receipt of the R.E.A. funds.

From time to time the Commission will review applicant's service conditions and its progress in improving its operations and in expanding and rehabilitating its facilities. At the outset, applicant must file its schedule of directory advertising rates to comply with Commission regulations in this respect.

O R D E R

A public hearing having been held on the above-entitled matters, and the Commission having considered the evidence and being of the opinion that the applications should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the stock and 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. The Siskiyou Telephone Company may issue not exceeding \$18,000 par value of its 6 per cent preferred stock in payment for a like amount of outstanding indebtedness.
2. The Siskiyou Telephone Company may enter into a telephone loan contract in, or substantially in, the same form as that filed in Application No. 38997 as Exhibit I, and may execute a mortgage in, or substantially in, the same form as that filed in this proceeding as Exhibit J.
3. The Siskiyou Telephone Company may issue not exceeding \$797,000 of its promissory notes in, or substantially in, the same form as the note filed in Application No. 38997 as Exhibit H, and pursuant to the terms of said contract and mortgage and, subject to further authorization as herein provided, shall use the proceeds from the issue of said notes for the purpose of expanding, rehabilitating and improving its facilities and service and refinancing outstanding indebtedness.

4. The Siskiyou Telephone Company shall deposit the proceeds from the issue of the notes herein authorized in a special bank account and may withdraw \$187,000 of such proceeds for the purposes indicated in the preceding opinion. The remaining proceeds shall be used for such purposes as the Commission may authorize in a supplemental order, or orders, in this proceeding.

5. The Siskiyou Telephone Company 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.

6. The authority herein granted will become effective when The Siskiyou Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$797.

Dated at Los Angeles, California, this 29th day of August, 1957.

Ralph Luterman President
W. Hardy
E. Lynn Fox

Commissioners

Peter E. Mitchell
Commissioner, Matthew J. Dooley, being necessarily absent, did not participate in the disposition of this proceeding.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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