

ORIGINAL

Decision No. 56269

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
THE WESTERN TELEPHONE COMPANY,

a California corporation, for authority
(a) to enter into a loan contract 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;
(b) to issue and sell its promissory
notes to the United States of America
in the aggregate principal amount of
\$2,456,000, bearing interest at the
rate of two per cent per annum;
(c) to execute and deliver a mortgage
of realty and chattels to secure said
promissory notes; (d) to apply the
proceeds realized from said promissory
notes toward the payment and discharge
of outstanding obligations, and to
finance additions and betterments

Application
No. 39734

O P I N I O N

In this application the Commission is asked to enter its order authorizing The Western Telephone Company to enter into a loan contract with the United States of America under and pursuant to the Rural Electrification Act of 1936, as amended, to execute a mortgage of realty and chattels, and to issue promissory notes in the aggregate principal amount of \$2,456,000.

Applicant is a California corporation engaged in furnishing local and toll telephone service in Trinity County and in portions of Humboldt, Mendocino, Tehama and Shasta Counties. Its financial statements filed with the Commission show its recorded

investment in telephone plant, including construction work in progress, and its number of stations at the end of each of the periods indicated, together with its operating revenues and gross income available for fixed charges, as follows:

	<u>Telephone Plant</u>	<u>Operating Revenues</u>	<u>Gross Income</u>	<u>No. of Stations</u>
1952	\$ 426,165	\$163,605	\$16,370	1,532
1953	708,168	195,970	26,963	1,611
1954	980,475	232,408	50,317	1,824
1955	1,188,340	301,198	52,683	2,164
1956	1,475,905	376,616	51,213	2,532
1957 (to Nov. 30)	1,561,985	435,003	70,029	-

In Exhibit A applicant sets forth its balance sheet as of November 30, 1957. A summary statement of the same is as follows:

Assets

Telephone plant -		
Total plant	\$1,561,985	
Less - reserves	<u>334,466</u>	
Net telephone plant		\$1,227,519
Current assets -		
Cash and working funds	44,644	
Notes receivable	4,500	
Accounts receivable	80,674	
Materials and supplies	58,576	
Prepaid insurance	<u>1,702</u>	
Total current assets		190,096
Deferred debits		<u>30,912</u>
 Total		 <u>\$1,448,527</u>

Liabilities and Capital

Notes payable		\$ 634,770
Current liabilities		145,062
Deferred credits		9,172
Preferred stock		153,300
Installments on stock		775
Common stock equity -		
Common stock	\$442,950	
Premium on stock	2,695	
Capital stock expense	<u>(21,666)</u>	
Surplus	<u>81,469</u>	
Total common stock equity		<u>505,448</u>
 Total		 <u>\$1,448,527</u>

The outstanding notes payable include a 5-1/4% note for \$600,000 payable to The Chase Manhattan Bank, a 6% note for \$21,000 payable to Central California Telephone Company and a 6% note for \$13,769.91 payable to Central Western Company, all notes being past due.

Applicant reports that early in 1956, it experienced serious damage from floods which adversely affected its earnings, which adverse earnings, in turn, increased its difficulty in obtaining additional financing on reasonable terms, with the result that its construction activities were postponed and that it was able to meet its obligations only by extension of its credit beyond normal limits. It reports that now it finds it necessary to improve and expand its facilities, that it does not have the available cash to do so and that it has entered into negotiations to obtain funds from the Rural Electrification Administration in the total amount of \$2,456,000. It proposes to utilize these moneys to pay the outstanding debts, now reported at \$656,438, and to provide capital costs as follows:

	<u>Total System</u>	
Central office equipment	\$492,100	
Land and buildings	97,000	
Station equipment	118,357	
Outside plant	714,510	
Vehicles and work equipment	<u>70,600</u>	
Subtotal		\$1,492,567
Engineering		122,210
Right-of-way procurement		14,130
Overhead		60,650
Contingencies		110,000
Debt retirement		<u>656,438</u>
Total loan requirements		<u>\$2,455,995</u>

The construction program is a long range one to be completed by 1962. The program includes, among other things, the conversion of the Garberville exchange to dial operation, the establishing of dial exchanges at Hayfork, Hoopa, Alderpoint and Leggett, the rehabilitation of existing facilities and the installation of additional facilities, and the establishing of exchange service in lieu of toll station service with the ultimate objective of eliminating toll station service to the greatest extent possible.

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.

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 L,

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 \$2,456,000 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 \$656,438 of proceeds to pay debts and \$250,000 to pay certain preloan engineering and other expenses. 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.

O R D E R

The Commission having considered the above-entitled matter, and being of the opinion that a public hearing is not necessary, 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 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. The Western Telephone Company may enter into a telephone loan contract in, or substantially in, the same form as that filed as Exhibit H, and may execute a mortgage of realty and chattels in, or substantially in, the same form as that filed in this proceeding as Exhibit K.

2. The Western Telephone Company may issue not exceeding \$2,456,000 of its promissory notes in, or substantially in, the same form as the note filed as Exhibit J, 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.

3. The Western Telephone Company shall deposit the proceeds from the issue of the notes herein authorized in a special bank account and may withdraw not exceeding \$906,438 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.

4. The Western 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.

5. The authority herein granted will become effective when The Western Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,728.

Dated at San Francisco, California, this 25th day of February, 1958.

Arthur E. Mitchell
President

Paul J. Ginter

William J. ...

R. ...

E. ...
Commissioners

