

ORIGINAL

Decision No. 57366

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CENTRAL CALIFORNIA 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 \$4,125,000, 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 issue and sell 22,000 common shares, par value \$10 per share, at the price of \$10 per share for cash; and (e) to apply all proceeds to the payment of outstanding indebtedness, to finance the acquisition of telephone lines and facilities owned and operated as the White River Telephone Exchange, and to finance additions and betterments.

Application
No. 40398

O P I N I O N

In this application the Commission is asked to make its order authorizing Central California 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; to issue promissory notes in the aggregate principal amount of \$4,125,000; and to issue 22,000 shares of common stock at their par value of \$10 each, a total of \$220,000.

Applicant was organized under the laws of California on or about November 2, 1929, and at the outset engaged in the public utility telephone business in Corcoran. Subsequently, however, it purchased or constructed exchanges in Exeter, Alpaugh, Linden, Farmington, McFarland and other points and, at the close of 1957, according to its annual report, operated three manual and four dial central offices. It is taking steps at this time to acquire the White River Telephone Exchange.

In financial statements filed with the Commission applicant has reported its net investment in plant and the number of telephones in service at the close of each of the last four years, and its operating revenues and net operating income for such years, as follows:

	<u>Plant Less Reserves</u>	<u>Telephones in Service</u>	<u>Operating Revenues</u>	<u>Net Operating Income</u>
1954	\$ 492,451	3,829	\$252,188	\$ 28,978
1955	707,727	4,411	287,165	23,594
1956	848,700	5,086	386,339	46,832
1957	1,377,506	6,687	449,661	53,038

For the first six months of 1958 applicant has reported operating revenues at \$263,261 and net operating income at \$28,800. It has reported its assets, liabilities and net worth as of June 30, 1958, as follows:

Assets

Telephone plant, less reserve		\$1,566,026
Other investments		2,667
Current assets		289,077
Deferred charges		<u>54,621</u>
Total		<u>\$1,912,391</u>

Liabilities and Net Worth

Long-term debt		\$ 376,000
Current liabilities -		
Notes payable	\$784,923	
Accounts payable	266,747	
Other current liabilities	<u>28,699</u>	
Total current liabilities		1,080,369
Operating reserves		1,346
Capital stock and surplus		<u>454,676</u>
Total		<u>\$1,912,391</u>

The outstanding long-term debt of \$376,000 consists of first mortgage 4-1/4% bonds due March 1, 1980. The notes payable of \$784,923 consist of four 5-1/2% demand notes which were issued to Stromberg-Carlson in the early part of 1958. The accounts payable include approximately \$200,000 incurred in connection with the construction of central office facilities.

Applicant's financial statements show that it has made substantial additions to its telephone plant during the last four years and that it has financed itself with funds from the sale of stock and bonds, from short-term borrowings, and with retained earnings. Applicant reports that it is faced with continuing demands for additional service, particularly in rural areas, and that it has made numerous attempts, unsuccessfully, to obtain capital commitments from private sources at reasonable terms. In view of the rising costs of capital and the increasing demands

for service in rural areas, applicant has concluded to turn to the Rural Electrification Administration and has made arrangements to borrow the total amount of \$4,125,000, the borrowings to be represented by 2% notes payable 35 years after date of issue. It proposes to utilize the moneys to pay outstanding debts and to provide capital costs as follows:

Central office equipment	\$ 555,000	
Land and buildings	134,000	
Station equipment	366,700	
Outside plant	1,544,500	
Vehicles and work equipment	<u>89,800</u>	
Subtotal		\$2,690,000
Engineering		170,600
Right-of-way procurement		12,500
Overhead		109,500
Contingencies		188,400
Acquisitions		70,000
Debt retirement		<u>284,000</u>
Total		<u>\$4,125,000</u>

The construction program is a long range one to be completed by 1962. The program includes, among other things, the conversion of the Corcoran, Exeter, McFarland and Lemon Cove exchanges to dial operation, the acquisition of the White River Telephone Exchange, the establishing of dial exchanges at Glennville, Pine Flat and Balance Rock, the rehabilitation of existing facilities and the installation of additional facilities throughout the service areas. The Exeter exchange will become a full toll center with automatic ticketing.

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 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 as provided in the loan contract, 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 N, 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.

Under the terms of the loan contract, applicant is required to raise approximately \$215,000 of additional equity funds and apply \$15,000 toward the acquisition of the properties at White River and to use the remainder to pay and discharge existing indebtedness. To meet this requirement applicant proposes to enter into an underwriting agreement with Bailey & Company for the sale of 22,000 common shares at a price of \$10 a share. The underwriting agreement limits the resale price to \$11 a share.

A review of the record clearly shows that applicant's proposal to engage in R.E.A. financing 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, 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 granting the present application, 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 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 \$4,125,000 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 \$1,684,000 of proceeds to pay debts, to provide certain preloan engineering and other expenses, and to finance the purchase of properties. 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.

ORDER

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 and stock 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. Central California Telephone Company may enter into a telephone loan contract in, or substantially in, the same form as that filed as Exhibit J, and may execute a mortgage of realty and chattels in, or substantially in, the same form as that filed in this proceeding as Exhibit M.

2. Central California Telephone Company may issue not to exceed \$4,125,000 of its promissory notes in, or substantially in, the same form as the notes filed as Exhibit K and Exhibit L, as appropriate, 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. Central California Telephone Company may issue and sell not to exceed 22,000 shares of common stock on or before March 31, 1959, at not less than \$10 a share for the purposes set forth in this application.

4. Central California Telephone Company shall deposit the proceeds from the issue of the notes herein authorized in a special bank account and may withdraw not to exceed \$1,684,000 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. Central California 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 Central California Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$2,374.50.

Dated at San Francisco, California,
this 29th day of SEPTEMBER, 1958.

E. J. Fox
President
[Signature]
[Signature]
[Signature]
Theodore Jensen
Commissioners

