

ORIGINAL

Decision No. 58115

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
The Volcano Telephone Company, Inc.

- (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 \$460,000, 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. 40796

O P I N I O N

The Volcano Telephone Company, Inc., has filed this application for authorization (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, and (3) to issue promissory notes in the aggregate principal amount of \$460,000.

Applicant was organized under the laws of the State of California on April 15, 1952, for the purpose of acquiring and operating a telephone system furnishing exchange and toll telephone service in portions of the Counties of Amador and Calaveras. Its financial statements filed with the Commission show the number of stations served by it as of December 31 of each year since it undertook its operations and its gross revenues and net income available for fixed charges as follows:

	<u>Operating Revenues for Year</u>	<u>Net Income for Year</u>	<u>No. of Stations Dec. 31</u>
1952 (Aug.-Dec.)	\$ 14,487	\$ 1,357	287
1953	36,592	3,609	349
1954	36,174	6,072	393
1955	39,547	5,240	457
1956	50,596	8,914	512
1957	52,738	8,542	562
1958	58,349	9,858	615

A statement of applicant's financial condition as of December 31, 1958, is reported in Exhibit B as follows:

Assets

Plant investment -		
Telephone plant in service	\$184,066.91	
Less: Depreciation reserve	<u>48,495.73</u>	
Net plant investment		\$135,571.18
Current assets -		
Cash	432.56	
Accounts receivable - subscribers	1,549.69	
Materials and supplies	2,850.14	
Prepayments	<u>677.96</u>	
Total current assets		5,510.35
Other assets		<u>6,353.28</u>
 Total assets		 <u>\$147,434.81</u>

Liabilities

Capital -		
Common stock	\$ 58,875.00	
Earned surplus	25,490.35	
Capital surplus	<u>2,359.22</u>	
Total capital		\$ 86,724.57
Funded debt -		
Long-term notes payable		50,908.00
Current and accrued liabilities -		
Short-term notes payable	\$ 1,500.00	
Toll settlements payable	952.83	
Other accounts payable	2,984.63	
Taxes payable	<u>4,364.78</u>	
Total current liabilities		<u>9,802.24</u>
 Total liabilities		 <u>\$147,434.81</u>

The present application shows that there is an increasing number of applications for service in sections of the exchange areas where telephone facilities do not exist and that applicant has made plans to extend its lines and facilities to serve up to approximately 840 stations at a total cost of \$460,000, including the refinancing of existing indebtedness. The estimated capital requirements consist of the following:

Construction* -		
Land and buildings	\$ 12,500	
Central office equipment	121,000	
Station equipment	43,700	
Outside plant	<u>162,800</u>	
Subtotal		\$340,000
Engineering		25,000
Operations equipment -		
Furniture and office equipment	2,600	
Vehicles and work equipment	<u>4,000</u>	6,600
General overheads -		
Construction overhead	5,800	
Preloan engineering	4,900	
Other preloan expenditures	<u>700</u>	
Subtotal		11,400
Misc. items -		
Removal costs	<u>12,250</u>	
Subtotal		12,250
Refinancing and debt retirement -		
Refinancing with loan funds		50,900
Contingencies		<u>13,850</u>
Total		<u>\$460,000</u>

\* 59.9% of construction for improvements of system and 40.1% for facilities to serve new subscribers.

Applicant has made, or is making, arrangements to meet its costs by means of R.E.A. financing. It proposes to enter into a loan contract providing for borrowings of not to exceed \$460,000, 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 I, a copy of the mortgage as Exhibit J, and a copy of the form of note as Exhibit H. Applicant expects 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 loans.

It appears 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 hold all moneys advanced to it in trust for the government and to deposit them in a special bank account to be withdrawn upon approval of 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.

The application indicates 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 840 subscribers ultimately will be attached to the lines. 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 February 9, 1959, filed as Exhibit K, 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.

In Exhibit E, applicant has presented a statement of its projected investment, revenues and expenses approximately five years after the completion of its construction. Applicant estimates its investment in plant will be \$506,705, after deducting depreciation, its gross revenues \$75,979 and its expenses, except interest and depreciation, \$36,824, leaving a balance of \$39,155 available to meet principal repayments and interest on the \$460,000 loan, which amounts are estimated, at the outset, at \$19,392.

Upon reviewing the verified application, we are of the opinion it is in the public interest for applicant to undertake to extend and improve its facilities and service as outlined in this proceeding and we will enter our order granting its requests. However, in doing so, we place applicant on notice that we are not passing on its rates nor 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 future rate base for the purpose of determining just and reasonable rates.

O R D E R

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 are not, in whole or in part, reasonably chargeable to operating expenses or to income; NOW THEREFORE,

IT IS HEREBY ORDERED as follows:

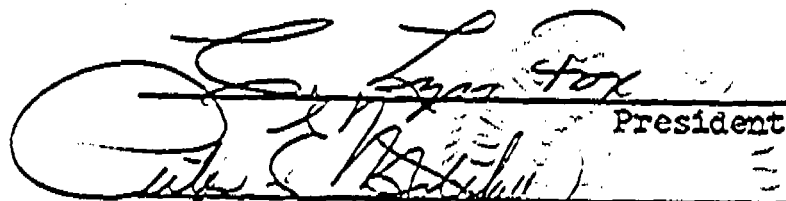
1. The Volcano Telephone Company, Inc., may enter into a telephone loan contract in, or substantially in, the same form as that filed in this proceeding as Exhibit I and may execute a mortgage in, or substantially in, the same form as that filed in this proceeding as Exhibit J.

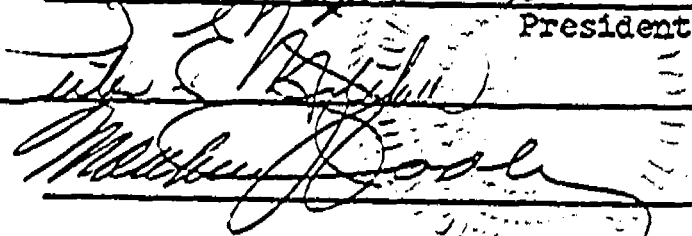
2. The Volcano Telephone Company, Inc., may issue not to exceed \$460,000 of its promissory notes in, or substantially in, the same form as the note filed in this proceeding as Exhibit H, and, pursuant to the terms of said contract and mortgage, shall use the proceeds from the issue of said notes for the purpose of expanding, rehabilitating and improvement its facilities and service and of refinancing indebtedness.

3. In accordance with the terms of General Order No. 24-A, applicant shall open a separate bank account to which shall be charged or credited all receipts or disbursements of money derived from the notes herein authorized. Applicant shall file monthly reports with the Commission as required by said general order.

4. The authority herein granted will become effective when The Volcano Telephone Company, Inc., has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$410.

Dated at San Francisco, California, this 17<sup>th</sup> day of March, 1959.

  
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President

  
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Commissioners

Commissioners

