

**ORIGINAL**

Decision No. 61837

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
the COLORADO RIVER 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 \$3,152,000,  
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. 43198  
Filed March 3, 1961

O P I N I O N

This is an application for an order authorizing  
Colorado River Telephone Company (1) to enter into a loan  
agreement with the United States of America, acting by and  
through the Rural Electrification Administration, (2) to  
execute and deliver a mortgage of realty and chattels,  
(3) to issue promissory notes in the aggregate principal  
amount of not to exceed \$3,152,000, and (4) to apply the  
loan proceeds to discharge certain existing obligations  
and to expand, improve, add to and rehabilitate its  
telephone plant.

Applicant is a public utility corporation engaged in furnishing local and toll telephone service to approximately 3,500 subscribers in portions of Riverside and Imperial counties. According to its annual reports its facilities include a common battery manual central office at Blythe and an unattended dial central office at Ripley. The following tabulation, prepared from the annual reports, indicates the company's growth during the last five years:

<u>Year</u>	<u>Operating Revenues</u>	<u>Telephone Plant Dec. 31</u>
1956	\$206,217	\$278,635
1957	236,632	378,215
1958	262,626	458,361
1959	273,689	499,131
1960	284,696	579,500

The company's balance sheet of December 31, 1960 shows that it has financed itself with an unsecured 5-3/4% demand note for \$260,923 in favor of Stromberg-Carlson, with common stock equity capital of \$176,002 and with other current obligations.

Applicant reports that it has made a study of the service demands and growth potential in its area and has concluded that within five years the number of subscribers would increase to more than 7,300. To meet this prospective demand and to provide improved service to existing subscribers, it has adopted a program calling for an additional investment of approximately \$3,000,000. Among other things, the company

proposes to convert its Blythe exchange from manual to dial with automatic toll ticketing and toll center operation, to establish new dial central offices with automatic ticketing at Palo Verde, Nichols Warm Springs and Midland, to erect new central office buildings at these three points and at Blythe, to rehabilitate the existing plant and to install additional plant where necessary and to provide a mobile dial radio system in its operating area.

Applicant intends to finance its costs by means of R.E.A. financing. It has made a feasibility study and has prepared an area coverage design and has filed its application with the R.E.A., all of which have been approved by the R.E.A. Applicant proposes to enter into a loan contract providing for borrowings of not to exceed \$3,152,000, the same 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. The arrangements provide for the drawdown of \$260,923 of the loan proceeds to pay the Stromberg-Carlson loan and for the use of the remaining \$2,891,077 to pay for the additions and improvements as work progresses.

It appears a conventional R.E.A. telephone loan is contemplated. The contract will provide for detailed supervision by the R.E.A. and, under its terms, 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. It is anticipated that the major portion of the construction will be completed by 1963 and that the entire project will be finished by 1967.

A review of the application shows 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 and, among other things, will extend its lines to unserved rural applicants for service in its service area who will not reduce the over-all density of the system below 12 subscribers per route mile of pole line, underground cable and radio link or where the cost of constructing the required line extensions will not exceed seven times the estimated annual exchange revenue from the extensions. It is noted, in this connection, the contract specifically 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 ...". The R.E.A. has advised 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 improve its service and to extend its lines to prospective subscribers to whom telephone service is not available at this time. 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.

We are of the opinion, and so find and conclude, that it is in the public interest for applicant to enter into the R.E.A. loan contract and to borrow money and issue its notes, in the amounts and under the terms set forth in this application, and thereby extend and improve its facilities and service, and that a public hearing is not necessary or required on the request to issue the notes. We will approve

the application but in doing so we place applicant on notice that at this time we are not passing on its rates or authorizing any revisions of its presently filed rules and regulations and that we will require applicant 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, such rates will be determined upon a consideration of what, in the Commission's judgment, would be prudent investment in plant financed by the R.E.A. loan sought to be approved herein. 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 or in operating expenses for the purpose of determining just and reasonable rates.

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 purpose specified herein; and that such purpose, except as otherwise authorized, is not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Colorado River Telephone Company may enter into a telephone loan contract in, or substantially in, the same form as that filed in this proceeding as Exhibit H, and may execute a mortgage in, or substantially in, the same form as that filed in this proceeding as Exhibit K.

2. Colorado River Telephone Company may issue not to exceed \$3,152,000 of its promissory notes pursuant to the terms of said contract and mortgage and shall use the proceeds from the issue of said notes for the purpose of expanding, rehabilitating and improving its facilities and service and of paying outstanding indebtedness, all as set forth in this application.

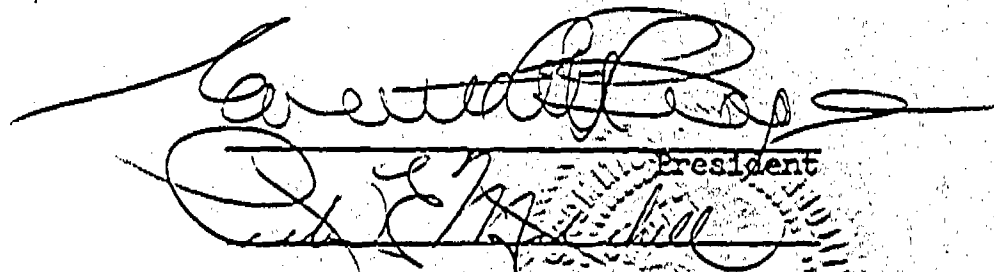
3. In recording the retirement of existing facilities and the replacement thereof with R.E.A. financed facilities under the authorization herein granted, Colorado River Telephone Company shall charge to Account 138, Extraordinary maintenance and retirements, the unprovided-for loss in service value of said existing facilities so retired and shall dispose of such amounts so charged to Account 138 only as hereafter may be authorized or directed by the Commission.

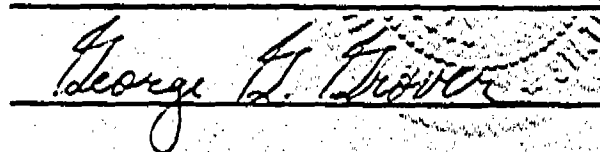
4. Colorado River Telephone Company shall file with the Commission a monthly report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

5. Colorado River Telephone Company shall apply its currently filed and effective tariffs in rendering telephone service and in extending lines until otherwise properly authorized by this Commission.

6. The authority herein granted will become effective when Colorado River Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$2,076.

Dated at San Francisco, California,  
this 18th day of APRIL, 1961.

  
President

  
George H. Grover

Commissioners

