

ORIGINAL

Decision No. 67670

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of Gilroy Telephone Company, a California corporation, for an order authorizing it to borrow \$500,000 from Pacific Mutual Life Insurance Company.

Application No. 46785
Filed July 8, 1964

O P I N I O N

This is an application for an order of the Commission authorizing Gilroy Telephone Company to execute a supplemental trust indenture and a loan agreement and to issue a promissory note, or notes, in the aggregate principal amount of \$500,000.

Applicant is a California corporation engaged as a public utility in the business of providing telephone service in and about the City of Gilroy, Santa Clara County. At the end of 1963, it reported 5,010 telephones in service. Financial statements, attached to the application, disclose operating revenues of \$674,166 and net income of \$87,072 for the twelve-month period ended May 31, 1964. The company's May 31, 1964 balance sheet indicates that of assets totaling \$1,988,754, an amount of \$1,852,839 represented depreciated investment in telephone plant and that total assets were offset primarily by capitalization composed as follows:

	<u>Amount</u>	<u>Per Cent</u>
Common stock and surplus	\$ 816,275	44%
Long-term debt	691,000	37
Short-term bank loans	<u>350,000</u>	<u>19</u>
Total	<u>\$1,857,275</u>	<u>100%</u>

The company reports that at various times it has issued short-term notes in favor of Bank of America National Trust and Savings Association in order to finance and refinance the cost of plant additions and that said notes amounting to \$350,000 include a \$275,000 loan previously authorized by the Commission. It estimates that an additional \$150,000 will be needed to complete the 1964 construction program as generally described in Exhibit B annexed to the application. The utility seeks authority to borrow \$500,000 from Pacific Mutual Life Insurance Company for the purpose of refunding said short-term notes and financing the cost of its remaining construction requirements in 1964.

The contemplated borrowing will be evidenced by a promissory note, or notes, aggregating \$500,000, maturing on June 1, 1989, and requiring repayment of principal in annual installments equivalent to two per cent of the original principal amount of each note issued. Interest at the rate of 5% per annum will be payable semi-annually and the note, or notes, will be secured by an existing mortgage as heretofore supplemented and as further supplemented by a proposed Third Supplemental Trust Indenture. In addition to providing for optional prepayment privileges, the loan will be subject to the five-year restricted

redemption provision frequently utilized. It appears that applicant's common stock equity will constitute about 41% of total capitalization after issuance of the new notes.

The Commission has considered this matter and finds that: (1) the proposed note issues are for proper purposes; (2) applicant will be required to pay a lower interest rate than it would in the absence of a restriction in the optional prepayment provision; (3) the money, property or labor to be procured or paid for by the issue of the notes herein authorized is reasonably required for the purposes specified herein; and (4) such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings, we conclude that the application should be granted. A public hearing is not necessary.

The authorization herein given is for the purpose of this proceeding only, and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Gilroy Telephone Company, for the purposes specified in this proceeding, may execute a loan agreement and a Third Supplemental Trust Indenture, and may issue its promissory note, or notes, in the aggregate principal amount of not to exceed

\$500,000, which documents shall be in the same form, or in substantially the same form, as those attached to the application.

2. Gilroy Telephone Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

3. This order shall become effective when Gilroy Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$225.

Dated at San Francisco, California, this 11th day of August, 1964.

Frederic B. Holcomb
President
John R. Smith
George H. Hoover

Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

