

ORIGINALDecision No. 68384

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SAN MIGUEL TELEPHONE CO. and)
SAN MIGUEL TELEPHONE COMPANY OF)
CALIFORNIA for an order authorizing:)
(a) SAN MIGUEL TELEPHONE CO., a)
corporation, to sell and transfer)
and SAN MIGUEL TELEPHONE COMPANY OF)
CALIFORNIA, a corporation, to)
purchase and acquire the telephone)
properties, plant and system owned)
by SAN MIGUEL TELEPHONE CO.; (b))
SAN MIGUEL TELEPHONE CO. to with-)
draw from the public utilities)
business; (c) SAN MIGUEL TELEPHONE)
COMPANY OF CALIFORNIA, a corpo-)
ration, to engage in the public)
utility business now being conducted)
by SAN MIGUEL TELEPHONE CO.; (d) the)
issuance of shares of the capital)
stock of SAN MIGUEL TELEPHONE COMPANY)
OF CALIFORNIA, and the assumption of)
the liabilities of SAN MIGUEL TELE-)
PHONE CO. by SAN MIGUEL TELEPHONE)
COMPANY OF CALIFORNIA; (e) SAN)
MIGUEL TELEPHONE COMPANY OF)
CALIFORNIA to borrow \$597,000.00.)

Application No. 46009
(Filed December 6, 1963)

Bacigalupi, Elkus & Salinger, by Alvin H. Pelavan
and Warren A. Palmer, for applicants.
California Independent Telephone Association, by
Paul E. Fey, interested party.
Sidney J. Webb and Albert L. Carlson, for the
Commission staff.

O P I N I O N

This matter was filed December 6, 1963. A prehearing conference was held February 10, 1964 and the matter was placed on calendar for public hearing on February 25, 1964. At the request of applicants, the matter was removed from the hearing calendar until August 18 and 19, 1964, on which two days public

hearing was held before Examiner Emerson at San Francisco. The matter is submitted and is now ready for decision.

San Miguel Telephone Co.^{1/} is an operating public utility telephone corporation providing telephone service within two exchanges in portions of San Luis Obispo County and Monterey County. Increased demands for telephone service and for higher grades of service, together with the need for rehabilitating some of the telephone plant, have caused this utility to seek financing in order to meet such needs. It has turned to the United States Department of Agriculture Rural Electrification Administration (REA) for such financing. In its negotiations with REA, it was informed that REA would lend it \$597,000, under certain conditions, one of which is that a new corporation be formed to which the assets and liabilities of the existing utility would be transferred. Accordingly, San Miguel Telephone Company of California,^{2/} a California corporation, was formed for such purpose and the application herein was jointly filed.

The proposal herein, for which applicants seek approval, is to transfer the existing telephone system from the original company to the successor company in consideration of 3,480 shares of successor company's \$10 par value common stock, \$37,000 in cash, and the assumption of certain of the original company's liabilities by the successor company. A copy of the proposed form of agreement for the sale is attached to the application as Exhibit C thereof.

1/ Hereinafter sometimes referred to as "original company".

2/ Hereinafter sometimes referred to as "successor company".

Successor company has negotiated a loan agreement with the REA for the long-term borrowing of \$597,000. Pursuant to the terms of the loan agreement, money would be advanced from time to time upon execution of mortgage notes, the notes bearing an interest rate of 2 percent per annum and being payable in quarterly installments over periods of 35 years. Proceeds of the borrowing would be used for acquisition and expansion of telephone plant and to retire debt.

The evidence respecting plant needs is extensive and detailed. In view of such evidence, the Commission finds that: (1) the proposed transfer would not be adverse to the public interest; (2) the money, property or labor to be procured or paid for by the issue of the stock and notes herein authorized is reasonably required for the purposes specified herein; and (3) such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The Commission concludes that the application herein should be granted as set forth in the following order. The action taken herein shall not be construed as being a finding as to the value of the properties authorized to be transferred. In issuing our order herein, San Miguel Telephone Company of California is placed on notice that the Commission does not regard the number of shares outstanding, the total par value of the shares, the dividends paid, nor the amount of debt authorized as measuring the rate of return which applicant should be allowed to earn on its investment in plant nor indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

Further, successor company should be aware that its journal entries respecting the transfer may be modified by direction of the Commission.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order and on or before June 30, 1965, San Miguel Telephone Co. may transfer and sell to San Miguel Telephone Company of California, the public utility telephone system and properties of said San Miguel Telephone Co., in accordance with the terms and conditions set forth in Exhibit C attached to the application herein.

2. San Miguel Telephone Company of California, on or after the effective date of this order and on or before June 30, 1965, for the purposes hereinabove specified, may issue and sell not to exceed 3,480 shares of its \$10 par value common stock in the aggregate par value of \$34,800.

3. San Miguel Telephone Company of California, coincidentally with the transfer and sale hereinabove authorized, may enter into a loan agreement with the United States of America for the borrowing of a sum not exceeding \$597,000 on substantially the terms and conditions and in the manner set forth in Exhibits D, E and F attached to the application herein. In addition, it may execute and deliver such supplemental mortgages as are required by the terms of the loan agreement.

4. Upon completion of the transfer hereinabove authorized:
(a) San Miguel Telephone Co. and San Miguel Telephone Company of California shall within thirty days thereafter notify this

Commission in writing of the date of such completion, and (b) San Miguel Telephone Co. shall stand relieved of all further public utility obligations in connection with the operation of the public utility properties transferred.

5. Within sixty days after transfer of the properties, San Miguel Telephone Company of California shall file with this Commission, in conformance with the provisions of General Order No. 96-A, a complete set of tariffs (including maps, rules and rates) in its own name, such tariffs to contain no increases in rates or charges nor to contain more restrictive rules or conditions than those now on file by San Miguel Telephone Co. and bearing as an effective date the date of actual transfer of the properties. In the interim period, existing tariffs shall be continued in effect without modification.

6. Within sixty days after the consummation of the transfer herein authorized, San Miguel Telephone Company of California shall file with the Commission a copy of each journal entry used to record the transfer on its books of account.

7. Within ninety days after consummation of the transfer herein authorized, San Miguel Telephone Co. shall file with this Commission an annual report covering the period commencing with the first day of the current year to and including the date of transfer.

8. San Miguel Telephone Company of California shall file with this 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.

9. The authorizations herein granted respecting the execution of a loan agreement and the issuance of the note required by said agreement will become effective when San Miguel Telephone Company of California has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$548. In other respects the order herein shall become effective on the date hereof.

Dated at San Francisco, California, this 22nd day of DECEMBER, 1964.

Frederick B. Halbach
President
George H. Brown
William A. Bennett
Commissioners

