

**ORIGINAL**

Decision No. 70314

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of )  
) )  
CENTRAL CALIFORNIA TELEPHONE )  
COMPANY )  
) )  
for an Order authorizing it (a) )  
to offer to its shareholders )  
nontransferable rights to purchase )  
one share of common stock for each )  
4.9 shares held; (b) to sell and )  
issue not to exceed 10,600 shares )  
of common stock, \$10 par value, )  
pursuant to said rights; (c) to )  
enter into a loan agreement with )  
Crocker-Citizens National Bank )  
providing for a loan of not to )  
exceed \$500,000; and (d) to )  
issue its promissory notes in the )  
aggregate principal amount of )  
\$500,000 pursuant to said )  
agreement. )

Application No. 43119  
Filed December 13, 1965

O P I N I O N

Central California Telephone Company requests authori-  
zation from the Commission to: (1) issue and sell not to exceed  
10,600 shares of its \$10 par value common stock pursuant to a  
proposed rights offering to existing shareholders and (2)  
execute a loan agreement and, in connection therewith,  
issue promissory notes in the aggregate principal amount of  
\$500,000.

Applicant is a California corporation engaged as a  
public utility in the business of furnishing local and toll  
telephone service in the Counties of Calaveras, Kern, Kings,

San Joaquin, Stanislaus and Tulare. The company's 1964 annual report shows operating revenues and net income of \$1,182,023 and \$103,432, respectively, for the calendar year, and a total of 10,372 telephones in service as of December 31, 1964. As of September 30, 1965, applicant reports net telephone plant amounting to \$4,738,265 which it financed, for the most part, by long-term borrowings through the Rural Electrification Administration.

The company states that it has been necessary to spend unusual amounts for additions and betterments to its systems because of the increased growth in service demands in its areas. According to the application, plant expansion over the next several years, based on an area coverage design, will include facilities for up-grading service and serving additional customers. The utility indicates that its estimated construction expenditures of \$420,300 and \$751,300, respectively, in 1965 and 1966, will accomplish the initial phase of such objectives.

Applicant proposes to issue and sell not to exceed 10,600 shares of its common stock by offering existing shareholders nontransferable rights to subscribe for one additional common share for each 4.9 shares of common stock held on the record date, rounded to the next full higher share. Each stockholder will be privileged to subscribe for its pro rata of shares offered and not purchased by other shareholders. The application shows that of the utility's 51,360 outstanding common shares 47,854 shares, or 93%, are owned by Continental

Telephone Corporation, which has indicated its willingness to exercise its rights and privileges in connection with the offering. Of the shares to be so acquired, 2,167 will be accepted by the parent corporation in consideration of the cancellation of a \$65,000 short-term construction loan. Applicant will sell the balance of the subscribed shares for cash at a price of \$30 per share.

The company proposes further to enter into a loan agreement with Crocker-Citizens National Bank, extending to the borrower a revolving line of credit in an aggregate amount of \$500,000. The amount of each advance under said agreement will be represented by a promissory note bearing interest at the rate of 5-1/2% per annum, payable quarterly and requiring repayment of principal on or before December 31, 1967.

The application shows that the funds to be derived from the issue and sale of the stock and notes contemplated in this proceeding will be applied toward (a) repaying short-term bank borrowings for construction aggregating \$260,000, (b) canceling the previously mentioned \$65,000 short-term obligation from the parent corporation, and (c) paying a portion of construction costs for the years 1965 and 1966.

According to the application some communities which the utility serves are no longer deemed "rural" under the Rural Electrification Act and more areas are expected to outgrow their rural status. It appears that the future diminution of funds available from the Rural Electrification Administration under such circumstances would require gradual reliance on alternative sources for long-term loans. The company asserts that a

procedure whereby obligations to said agency would continue to increase, even at a diminished rate, would be unworkable because additional borrowings from other sources would be difficult to obtain. In order to finance the cost of providing the same continued level of service to all communities in its territory, applicant proposes henceforth to seek all long-term loans from sources other than the Rural Electrification Administration.

The Commission has considered this matter and finds that: (1) the proposed stock and note issues are for proper purposes; (2) applicant has need for funds from external sources for the purposes set forth in the application; (3) 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 (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.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the authorization herein given is not to be construed as a finding of the value of applicant's stock or properties nor 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. Central California Telephone Company, on or after the effective date hereof and on or before June 30, 1966, may offer to its shareholders rights to purchase common stock and, in connection therewith, may issue and sell not to exceed 10,600 shares of its common stock in the manner and for the consideration set forth in the application.

2. Central California Telephone Company may execute a loan agreement and, pursuant to the terms thereof, may issue and deliver its 5-1/2% promissory notes in the aggregate principal amount of not to exceed \$500,000. Said documents shall be in the same form, or in substantially the same form, as those attached to the application as Exhibit D and Exhibit E, respectively.

3. Central California Telephone Company shall use the proceeds to be derived from issuing the stock and notes herein authorized for the purposes specified in this proceeding.

4. Central California 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.

5. This order shall become effective when Central California Telephone Company has paid the fee prescribed by Section 1904 (b) of the Public Utilities Code, which fee is \$500.

Dated at San Francisco, California,  
this 8<sup>th</sup> day of FEBRUARY, 1966.

Frederic B. Holcroft  
President  
John D. Mitchell  
George G. Grover  
William B. Smith  
Commissioners

Commissioner George G. Grover, being necessarily absent, did not participate in the disposition of this proceeding.

