

ORIGINAL

Decision No. 71582

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of
THE WESTERN TELEPHONE COMPANY,
a California corporation, for
authority to (a) enter into an
Amendment to Telephone Loan
Contract, dated November 12,
1957, between Applicant and 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) issue and sell its promissory
notes to the United States of
America in the aggregate principal
amount of \$1,000,000, bearing
interest at the rate of two per
cent per annum; (c) to execute
and deliver a supplemental
mortgage of realty and chattels
to secure said promissory notes;
(d) to issue 1852 shares of
Common Stock, \$25 Par Value; and
to apply the proceeds realized
from said promissory notes and
sale of Common Stock to finance
additions and betterments.

Application No. 48870
Filed October 14, 1966
and Amendment
Filed October 27, 1966

O P I N I O N

This is an application for an order of the Commission authorizing The Western Telephone Company (1) to issue and sell 1,852 shares of its \$25 par value common stock for an aggregate consideration of \$100,000; (2) to enter into an Amendment to its Telephone Loan Contract with the United States of America,

acting through the Administrator of the Rural Electrification Administration; (3) to execute and deliver a Supplemental Mortgage and Financing Statement; and (4) to issue and deliver Mortgage Notes in the aggregate principal amount of \$1,000,000.

Applicant is a California corporation engaged in business as a public utility furnishing local and toll telephone service in Trinity County and in portions of Humboldt, Mendocino and Tehama Counties. According to the company's 1965 annual report on file with the Commission, its operating revenues and net income for the calendar year were \$1,411,274 and \$139,083, respectively, and a total of 5,460 telephones were in service at the end of the year. For the eight months ended August 31, 1966, applicant reports total operating revenues of \$1,000,738 and net income of \$113,633. The application shows that the company's net telephone plant investment was \$5,477,315 as of August 31, 1966.

Previously, the Commission has authorized the utility to engage in Rural Electrification Administration financing to the extent of \$4,188,000 in order to retire indebtedness and to expand plant facilities in its service area. It appears that the entire \$4,188,000 of loan proceeds were expended by early 1964, and that extensive additions to plant have been made since that time.

The company's construction plans indicate that expenditures of \$2,210,997 will be required over a five-year period ending in 1971 for furnishing service to 1,637

additional subscribers, upgrading service and providing additional toll facilities and dial central offices. A sum of \$5,500 is included in said expenditures for the proposed toll station area of Harrison Gulch, which area is the subject of a dispute between applicant and Happy Valley Telephone Company in pending Cases Nos. 8462 and 8474. It appears that interim loans incurred in connection with applicant's construction program are outstanding currently in an aggregate amount of \$550,000, including \$200,000 authorized by Decision No. 70868, dated June 21, 1966, in Application No. 48514.

In this proceeding, the company proposes to borrow \$1,000,000 through additional Rural Electrification Administration financing pursuant to the provisions of an Amendment to its Telephone Loan Contract. The borrowing will be evidenced by 35-year Mortgage Notes bearing interest at the rate of 2% per annum. The notes will be secured by an existing mortgage as amended or supplemented.

As a condition for obtaining said \$1,000,000, the Rural Electrification Administration requires the company to increase its equity by at least \$250,000 through the sale of additional common stock. It appears that said requirement was met partially by the sale of common stock to the extent of \$150,000 pursuant to authority granted by Decision No. 70735, dated May 24, 1966, in Application No. 48445. In order to comply fully with the requirement, the utility proposes to issue 1,852 shares of its common stock to Continental Telephone Corporation for a consideration of \$100,000, which

is equivalent to a price of approximately \$54 per share. The balance sheet, attached to the application as Exhibit B, indicates a book value of \$53.93 per share for the common stock as of August 31, 1966.

According to the application, the proceeds to be derived from the proposed note and stock issues will be applied toward discharging \$550,000 of interim construction loans and financing part of the company's construction program.

The Commission has considered this matter and finds that: (1) the proposed note and stock issues are for proper purposes; (2) the money, property or labor to be procured or paid for by the issue of the notes and stock herein authorized is reasonably required for the purposes specified herein; (3) such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; and (4) the proposed documents will not be adverse to the public interest. On the basis of these findings we conclude that the application, as amended, 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 granted 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. Moreover, such authorization is without prejudice to the issues in Cases Nos. 8462 and 8474.

O R D E R

IT IS ORDERED that:

1. The Western Telephone Company may enter into and execute an Amendment to its Telephone Loan Contract with the United States of America, acting through the Administrator of the Rural Electrification Administration, and may execute and deliver a Supplemental Mortgage and Financing Statement, which documents shall be in the same form, or in substantially the same form, as those attached to the application as Exhibit G and Exhibit E, respectively.

2. The Western Telephone Company may issue and deliver Mortgage Notes in the aggregate principal amount of not to exceed \$1,000,000 in the same form, or in substantially the same form, as that attached to the amendment to the application.

3. On or after the effective date hereof and on or before June 30, 1967, The Western Telephone Company may issue and sell 1,252 shares of its common stock for an aggregate consideration of not less than \$100,000 to Continental Telephone Corporation.

4. The Western Telephone Company shall use the proceeds to be derived from the note and stock issues herein authorized for the purposes set forth in this proceeding.

5. The Western 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.

6. This order shall become effective when The Western Telephone Company has paid the fee prescribed by Section 1904 (b) of the Public Utilities Code, which fee is \$300.

Dated at San Francisco, California,
this 29th day of NOVEMBER, 1966.

President

Fredrick B. Holhoff

William W. Bernard

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Commissioners

Commissioner George G. Grover did not participate in the disposition of this proceeding.

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

