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ORIGINAL

Decision No. 81577

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

The California Farm Bureau Federation,
a non-profit organization,

Complainant,

vs.

San Miguel Telephone Company of
California,

Defendant.

Case No. 8855
(Filed November 4, 1968)

In the Matter of the Application of
San Miguel Telephone Company of
California for authorization to
borrow \$1,225,000, issue notes
therefor and execute security
instruments in connection therewith.

Application No. 51582
(Filed December 29, 1969)

In the Matter of the Application of
San Miguel Telephone Company of
California for authorization to
borrow \$1,225,000, issue notes
therefor and execute security
instruments in connection therewith.

Application No. 53576
(Filed September 8, 1972;
amended December 18, 1972)

THIRD INTERIM OPINION

Redwood Empire Telephone Company (Redwood) by letters dated May 30, June 1, and June 15, 1973 requests authority to spend up to \$360,000 of its unencumbered Rural Electrification Administration (REA) D loan funds for revised Northern Division outside plant construction.

The Commission issued Decision No. 77208 dated May 12, 1970 in the consolidated proceedings, Case No. 8855, a service complaint of the California Farm Bureau Federation against San Miguel Telephone Company of California,^{1/} and Application No. 51582,^{2/} wherein San Miguel sought authorization to borrow \$1,225,000 from the Rural Electrification Administration (REA). The Commission's decision, among other things, authorized the borrowing from REA.

On September 8, 1972, Redwood filed an application for supplemental order seeking authority to expend the funds authorized to be borrowed by Decision No. 77208 for purposes different than those authorized therein. Decision No. 81221 issued April 3, 1973 granted the authority requested. The projects approved by this decision included the following Northern Division outside plant projects at an estimated cost of \$300,000: Cazadero to Timber Cove toll line; distribution plant in Cazadero, Sea Ranch, and Timber Cove. Bids for the above project were opened on May 24, 1973, and the lowest bid was \$445,812.45. As a result Redwood has made its current request.

The REA, in a June 8, 1973 letter attached to Redwood's request of June 15, 1973, suggests, as one alternative to the problem, acceptance of the \$445,812.45 bid. To this proposal REA attached the following conditions:

1. REA loan funds in the amount of \$360,000 can be made available.
2. The remaining amount (\$85,812.45) necessary for approval of the contract will be provided by the company from equity or general funds.
3. Any additional contract costs resulting from changes or additions to the construction will be provided by the company from equity or general funds.

1/ Now Redwood Empire Telephone Company.

2/ Decision No. 77208 was amended by Decision No. 77215 dated September 15, 1970 as it applied to Application No. 51582.

4. REA loan funds will be made available as needed to pay invoices in accordance with the contract up to 95 percent of the \$360,000 or \$342,000. Company funds will be used to meet remaining contractual obligations until completion of the contract at which time the remaining 5 percent (\$18,000) of loan funds will be available.
5. As equity or general funds become available, they will be deposited to the REA Construction Fund Account and will be used only as authorized by REA. It is understood, of course, that all company funds will have been deposited by the proposed completion date provided by the contract.
6. Evidence of agreement to the above procedure by the California Public Utilities Commission and by Bonneville Construction Company will be submitted before approval of the low bid or the construction contract by REA.

We agree with the views expressed by the REA in the above letter. We have a further concern that excess expenditures on this project may result in an inability on the part of applicant to complete other projects for which "D" Loan funds have been budgeted. Likewise, as noted by the Commission in Decision No. 81221 dated April 3, 1973, applicant's construction costs had repeatedly exceeded budgeted amounts and if applicant failed to control costs that its customers would be burdened with requests for new and higher rates based on these added construction costs.

The Commission also stated in Ordering Paragraph 4, Decision No. 81221, that:

"Applicant is placed on notice that in considering future loan applications the Commission will examine carefully the construction project costs under the "D" Loan authorization. If any further Loan proceeds are earmarked to cover overrides in the "D" Loan, the Commission may require applicant to finance such overrides with equity capital."

Despite our concerns, we recognize that service needs in the Northern Division, as well as the Southern Division, are urgent. If this project goes forward it will improve service.

We will require continued reservation of "D" Loan funds for Southern Division projects. Likewise, we shall direct applicant to continually review its construction costs to make certain that finances will be available to complete all projects budgeted under the "D" Loan. If it is determined that the remaining unexpended "D" Loan funds are insufficient for this purpose, then applicant should either utilize retained earnings or issue additional common stock to make up the deficit.

Findings

1. The requested revision in the authorization of Decision No. 81221 is reasonably justified on condition that there be no reduction in funds proposed, in Application No. 53576, to be expended in the Southern Division.

2. Redwood should undertake the whole of the construction of the Cazadero to Timber Cove toll line and of distribution plant in Cazadero, Sea Ranch, and Timber Cove, at this time.

3. Any costs to complete the construction, specified in 2 above, in excess of \$360,000 should be provided by Redwood from retained earnings and/or equity investment funds.

Conclusions

1. The petition of Redwood should be granted.

2. No public hearing is necessary.

3. The authorization herein is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

THIRD INTERIM ORDER

IT IS ORDERED that:

1. The authority of Ordering Paragraph 1 of Decision No. 81221 is revised to permit expenditure of \$360,000, instead of \$300,000 of unencumbered REA "D" Loan funds, for construction of the Cazadero to Timber Cove toll line and distribution plant in Cazadero, Sea Ranch, and Timber Cove. This authority is granted on condition that contract costs for the above construction, in excess of \$360,000, will be provided by Redwood from equity investment funds and/or from retained earnings.

2. The equity funds and/or retained earnings provided by Redwood, as required by Ordering Paragraph 1 above, shall be deposited to a construction fund account to be used solely for construction of the Cazadero to Timber Cove toll line and distribution plant in Cazadero, Sea Ranch, and Timber Cove.

3. Applicant shall continually compare actual construction costs with budgeted construction costs. If it determines that unexpended REA "D" Loan funds will be insufficient to complete all projects budgeted, it shall immediately notify the Commission and submit a proposal to finance the deficit.

In all other respects, the orders of Decision No. 81221 remain in full force and effect.

The effective date of this order shall be ten days after the date hereof.

Dated at San Francisco, California, this 3rd day of JULY, 1973.

Vernon L. Steegen
President
William L. Simon
Ray M. ...
...
Commissioners

I abstain
H. ...
Commissioner