

ORIGINAL

Decision No. 83159

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of
Redwood Empire Telephone Company for
authorization to borrow \$1,285,000,
issue a certain Mortgage Note there-
for and to execute a Supplemental
Mortgage in connection therewith.

Application No. 54612
(Filed January 30, 1974)

ORDER MODIFYING DECISION NO. 82626

Redwood Empire Telephone Company (Redwood) by petition
filed June 10, 1974, seeks modification of ordering paragraph 7
of Decision No. 82626, issued March 19, 1974 in Application No. 54612.

Ordering paragraph 7 of Decision No. 82626 reads as follows:

"7. Redwood Empire Telephone Company shall make contracts
and request the approval of the Rural Electrification
Administration for construction in the following order of
priority:

- a. Completion of REA Contract D-22 for the construction
of the San Miguel-Parkfield toll line.
- b. Completion of outside plant construction and
replacement in the San Miguel exchange area.
- c. Completion of outside plant construction and
replacement in the Parkfield exchange area.
- d. Completion of the construction of a new central
office building at San Miguel under REA Contract D-21.
- e. Purchase and installation of new central office
equipment at San Miguel.
- f. Completion of the underground plant and construction
of a building in the Berrenda Mesa exchange.
- g. Completion of the Cazadero-Timber Cove-Sea Ranch toll
carrier under REA Contract D-23.
- h. Installation of new toll ticketing equipment and
construction of a warehouse in San Miguel.
- i. Construction of a warehouse and supply depot at the
Sea Ranch office area.

- j. Construction of garages for the Cazadero and Timber Cove office areas.
- k. Construction of the headquarters building at Annapolis Road at the Sea Ranch."

The projects listed in the above ordering paragraph 7 of Decision No. 82626 are of two kinds. Items 7. a, c, d, and g were planned, financed, and commenced under the Rural Electrification Administration's (REA) "D" loan to Redwood (authorized by Decision No. 77208, dated May 12, 1970, in Application No. 51582 and Case No. 8855). The remaining projects listed are planned under the REA "E" loan (authorized by Decision No. 82626, supra).

The funds estimated to be necessary for the "D" loan projects mentioned above were short of the contracted cost of these projects by \$209,699. The "E" loan amount is intended to cover this deficiency as well as to provide funds for construction of the other projects listed in ordering paragraph 7 of Decision No. 82626.

Because petitioner's construction costs have repeatedly exceeded estimated costs, because of evidence that Redwood in the past has expended funds in its Northern Division that were originally intended for its Southern Division, and because of evidence that Redwood was not adequately serving its Southern Division, the Commission's intent in ordering paragraph 7 of Decision No. 82626 was to insure the maximum feasible service improvements in the Southern Division from the proceeds of the "E" loan. It was the Commission's view that this could be accomplished by requiring specific service improvement projects to be contracted for in accord with a priority list. It was not the intent of the Commission to require "...completion seriatim of the projects referred to in Paragraph 7,..." (Petition page 5). It was our intent to require seriatim commitment of "E" loan funds adequate to complete each project in the order of priorities listed. This intent will be met if a project on the priority list is contracted for and "E" loan funds, sufficient for contract completion are reserved for that project, prior to execution of a contract and reservation of funds for a project of lower priority.

Petitioner states that because of certain interpretations of ordering paragraph 7 of Decision No. 82626, it has been unable to obtain release of funds by the REA to permit completion of contracts D-21, D-22, and D-23. According to petitioner these contracts have been partially completed by use of "D" loan funds. These funds are now exhausted and petitioner seeks modification of said ordering paragraph 7 such that these contracts can be completed by use of "E" loan funds. Assertedly, appropriate modification of the ordering paragraph will cause the REA to release funds for this purpose. However, mention must be made of a prior opinion related to Redwood's "D" loan (Decision No. 81577, July 3, 1973) in which we stated as follows: "If it is determined that the remaining unexpended "D" loan funds are insufficient for this purpose /i.e., to complete all projects budgeted under the "D" loan., then applicant should utilize retained earnings or issue additional common stock to make up the deficit." In this same vein, by Decision No. 77208 of May 12, 1970, we ordered Redwood to maintain a minimum equity investment equal to 10% of capitalization. In view of present exigencies we will authorize use of "E" loan funds for completion of the "D" contracts. We will also require petitioner to submit its plans to achieve an appropriate capital structure upon completion of "E" loan expenditures.

Findings

1. Modification of ordering paragraph 7 of Decision No. 82626, to permit prompt completion of contracts D-21, D-22, and D-23, is reasonable and justified.
2. Redwood should proceed forthwith with "E" loan projects which will yield maximum feasible service improvements in its Southern Division.
3. Redwood should be ordered to submit a plan to achieve an appropriate capital structure upon completion of "E" loan expenditures.

Conclusions

1. The petition of Redwood should be granted to the extent discussed hereinabove.
2. No public hearing is necessary.
3. The authorization herein granted is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

IT IS ORDERED that:

1. Ordering paragraph 7 of Decision No. 82626 is modified to read as follows:

Redwood Empire Telephone Company shall make contracts and request approval of the Rural Electrification Administration for construction in the following order of priority:

- a. REA Contract D-21 for completion of construction of the new San Miguel central office building, REA Contract D-22 for completion of construction of the San Miguel-Parkfield toll line and of the Parkfield exchange plant, and REA contract D-23 for completion of construction of the Cazadero-Timber Cove-Sea Ranch toll carrier.
- b. San Miguel-Parkfield toll carrier.
- c. Outside plant construction and replacement in the San Miguel exchange.
- d. Purchase and installation of new central office equipment at San Miguel, including toll ticketing equipment.
- e. Outside plant construction in the Berrenda Mesa exchange.
- f. Construction of a new central office building in Berrenda Mesa.
- g. Outside plant, central office equipment and station equipment for the Northern Division.
- h. Construction of a warehouse in San Miguel.
- i. Construction of a warehouse and supply depot at Sea Ranch.

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j. Construction of garages for Timber Cove and Cazadero office areas.

k. Construction of a headquarters building at Sea Ranch.

2. Redwood Empire Telephone Company shall, within 60 days of the effective date of this order, file its plans with the Commission, to achieve an appropriate capital structure, upon completion of "E" loan expenditures.

In all other respects Decision No. 82626 shall continue in full force and effect.

The effective date of this order shall be the date hereof.

Dated at San Francisco, California, this 16th day of JULY, 1974.

Yuan L. Sheng
President
William Sheng
[Signature]
[Signature]
Commissioners

I abstain

[Signature], Commissioner