

Decision No. 85001

ORIGINAL

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of )  
 SIERRA TELEPHONE COMPANY, INC. for )  
 an order (a) authorizing it to issue )  
 a \$5,950,000 note, (b) exempting the )  
 issuance of said note from the )  
 competitive bidding rule set forth )  
 in Decision No. 38614, as amended, )  
 and (c) authorizing it to execute and )  
 deliver a Supplement to Supplemental )  
 Mortgage and Security Agreement. )

Application No. 55853  
 (Filed August 7, 1975)

Harry H. Baker, Jr., for applicant.  
Sidney J. Webb, for the Commission staff.

O P I N I O N

Sierra Telephone Company, Inc. seeks an order granting it an exemption from the Commission's competitive bidding rule, and authorizing it (a) to issue a \$5,950,000 Mortgage Note to the Federal Financing Bank, and (b) to execute and deliver a Supplement to Supplemental Mortgage and Security Agreement.

After due notice, a public hearing in the above-entitled matter was held before Examiner Tomita in San Francisco on September 19, 1975, at the conclusion of which the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant is a California corporation engaged in the business of providing telephone service primarily in a portion of the County of Madera. For the year 1974, its reported operating revenues and net income amounted to \$1,112,981 and \$154,641, respectively.

The utility proposes to issue its Mortgage Note in the principal amount of \$5,950,000, and to use the proceeds for estimated expenditures summarized from Exhibit B, attached to the application, as follows:

Upgrade a portion of the Coarsegold Exchange plus Raymond Exchange	\$2,484,162
Extend service to 1,280 new subscribers	373,640
Establish toll center at Oakhurst	632,780
Construct a combination head- quarters and central office building at Oakhurst	438,610
New equipment for Oakhurst Central Office	768,808
New microwave toll system	475,000
Engineering fees	<u>777,000</u>
Total	<u>\$5,950,000</u>

The Mortgage Note would bear interest determined pursuant to Section 6(b) of the Federal Financing Bank Act of 1973. The maturity date for repayment of each advance would be no later than 34 years after the end of the calendar year in which the advance is made. The United States of America, acting through the Administrator of the Rural Electrification Administration, would guarantee to the Federal Financing Bank the making of the payments when and as due.

In support of its request for exemption from competitive bidding requirements, the application sets forth the company's reasons as follows:

"1. REA published a notice in the Federal Register which included a description of the proposed project to be paid for by proceeds from the loan, the estimated total cost, the estimated amount of the guaranteed loan, a statement that the Federal Financing Bank has a standing loan commitment agreement with the Rural Electrification Administration and the name and address of the applicant to which financing proposals may be submitted. If the applicant receives other proposals than from FFB, it will be responsible for evaluation of all proposals and furnishing REA with a report on the evaluations and its choice of proposals. No other proposals were received.

"2. An investigation of other possible sources of a loan in the order of this magnitude by the management of this company disclosed that none were available at such favorable interest rates."

After consideration the Commission finds that:

1. The proposed documents would not be adverse to the public interest.
2. The proposed Mortgage Note would be for proper purposes.
3. Competitive bidding should not be required with respect to the proposed Mortgage Note.
4. The money, property or labor to be procured or paid for by the issue of the Mortgage Note herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted. The authorization herein granted is for the purpose of this proceeding only, and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

Moreover, nothing in this decision is to be construed as concurrence in the reasonableness of proposed serving arrangements or tariff modifications. For example, although the body of the application indicates that the company intends to exclude mileage or zone charges from its tariffs, the utility does not seek authority to do so in the prayer.

The latter proposal is contrary to the rate-making philosophy of this Commission. With rare exceptions, we have established rate designs which give reasonable recognition to the relative cost of service. Zone or mileage rate treatment, especially in rural areas, accomplishes this objective. In addition, Section 728 of the California Public Utilities Code requires this Commission, in fixing rates, to take into consideration rates for comparable service in adjacent territory. Nearly all rural exchange territories in California employ zone or mileage rate treatment. For these reasons the company's proposal to exclude mileage or zone charges from its tariffs will not be authorized.

O R D E R

IT IS ORDERED that:

1. The proposed \$5,950,000 Mortgage Note issue of Sierra Telephone Company, Inc. is hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, in Case No. 4761.

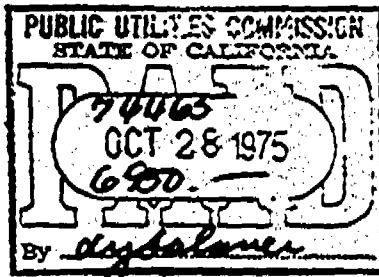
2. Sierra Telephone Company, Inc., in order to obtain funds for the purposes specified in this proceeding, may issue its Mortgage Note in the principal amount of \$5,950,000, which document shall be in substantially the same form as Exhibit D attached to the application.

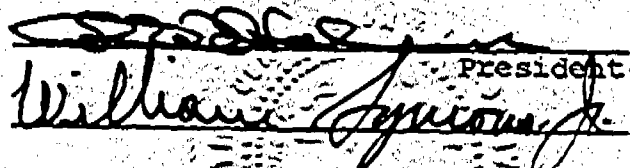

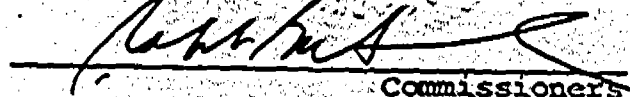
3. Sierra Telephone Company, Inc. may execute and deliver a Supplement to Supplemental Mortgage and Security Agreement in substantially the same form as that attached to the application as Exhibit E.

4. Sierra Telephone Company, Inc. shall file with the Commission reports 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 Sierra Telephone Company, Inc. has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$6,950.

Dated at San Francisco, California, this 15<sup>th</sup> day of October, 1975.



  
President  
  
  
Commissioner's

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.