

RR/KLH/ARM/WPSC

ORIGINALDecision S4 03 014 MAR 7 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 DORRIS TELEPHONE COMPANY for an)
 Order authorizing it to purchase)
 stock of and to acquire control of)
 California-Oregon Telephone Co.; to)
 issue notes in an amount not exceed-)
 ing \$1,600,000; and to execute)
 related security agreements.)

Application 83-09-30
 (Filed September 7, 1983;
 amended December 29, 1983)

O P I N I O N

United Telephone Company of the Northwest (United Telephone) requests authority to sell and Dorris Telephone Company (Dorris) requests authority to acquire 100% of the 7200 shares of California-Oregon Telephone Co.'s (Cal-Ore) Common Stock, \$20 par value, under Public Utilities (PU) Code 851 and 854. Specifically their proposals and requests are detailed below:

1. Both United Telephone and Dorris have negotiated to enter into an Agreement similar in form to that dated November 11, 1983 attached to the amendment to the application as Exhibit A. In this Agreement, United Telephone desires to sell 100% of its interest in Cal-Ore represented by 7200 shares of Cal-Ore's outstanding common stock and Dorris agrees to purchase this stock and to control Cal-Ore with Commission approval.
2. After the above transaction has been completed, Dorris proposes to liquidate Cal-Ore.

3. Dorris would then merge Cal-Ore's assets and operations into its own system and operate the Cal-Ore system as a part of the Dorris Telephone system.
4. Dorris would either file a statement adopting Cal-Ore's tariffs or refile those tariffs under its own name but preserve the integrity and present rates of both of Cal-Ore's exchanges until a change is authorized by the Commission.

Summary of Decision

This decision grants to United Telephone and to Dorris the authority requested in the application.

Notice of the filing of the application and the amendment appeared on the Commission's Daily Calendars of September 19, 1983 and January 4, 1984, respectively. No protests have been received.

Dorris, a California corporation, operates as a telephone utility under the jurisdiction of this Commission. Dorris engages in the business of providing telephone service in portions of Siskiyou County.

Cal-Ore, a California corporation, also operates as a public utility under the jurisdiction of this Commission. Cal-Ore engages in the business of providing telephone service in portions of Siskiyou and Modoc Counties. Cal-Ore is a wholly owned

subsidiary of United Telephone, an Oregon corporation, owning 100% of Cal-Ore's 7200 shares of Common Stock, \$25 par value, presently outstanding.

Cal-Ore's service area, represented by the Tulelake and Newell exchanges, is located about 25 miles from the Dorris exchange served by Dorris. The exchanges are separated by unserved territory. The close proximity of facilities will allow Dorris to serve the Tulelake and Newell exchanges with minimal additions of personnel and equipment.

In order to eliminate unnecessary overhead and to provide the most efficient and highest quality of service, Dorris proposes to combine the operations of Cal-Ore with those of Dorris. After the acquisition of control of Cal-Ore and its liquidation, Dorris proposes to operate the Tulelake and Newell exchanges of Cal-Ore in accord with Cal-Ore's presently filed tariffs. Thereafter, Dorris will prepare and file a revised set of tariffs for both the presently owned and the newly acquired exchanges, except that the new tariffs shall preserve in each exchange the presently authorized exchange rates, until the rates are changed in accordance with Commission procedures.

Dorris and United Telephone have entered into the Agreement, Exhibit A of the amendment to the application, for the sale of Cal-Ore's outstanding capital stock to Dorris for a purchase

price equal to net book value of Cal-Ore, estimated to be about \$1,400,000 at the time of sale plus \$200,000 which will be recorded as an acquisition adjustment on the accounting records of Dorris.

For the 12 months ended June 30, 1983, Dorris reports in its statement of Income and Retained Earnings, shown as part of Exhibit G attached to the application, as amended, that it generated total operating revenues of \$953,097 and a net income of \$47,224.

Also shown as part of Exhibit G is Dorris's Balance Sheet as of June 30, 1983 summarized below and a pro forma Consolidated Balance Sheet as of December 31, 1983 reflecting the acquisition of Cal-Ore and the loans totalling \$3,518,900 subject of Application (A.) 83-12-47 currently before the Commission. These are summarized as follows:

<u>Assets</u>	<u>Recorded June 30, 1983</u>	<u>Consolidated Pro Forma</u>
Net Telephone Plant	\$2,943,991	\$6,211,991
Plant Acquisition Adjustment	0	200,000
Other Investments	98,763	149,663
Current Assets	278,259	278,259
Deferred Charges	<u>97,579</u>	<u>97,579</u>
Total	\$3,418,592	\$6,937,492
 <u>Liabilities and Equity</u>		
Common Equity	\$ 622,050	\$ 622,050
Long-Term Debt	2,669,541	6,228,441
Current Liabilities	93,451	53,451
Deferred Credits	<u>33,550</u>	<u>33,550</u>
Total	\$3,418,592	\$6,937,492

Financing the Purchase of Cal-Ore

In a separate application presently before the Commission for decision, A.83-12-47 dated December 27, 1983, Dorris filed a request to enter into a loan agreement with the Rural Electrification Administration (REA) and the Rural Telephone Bank (RTB)^{1/} to borrow \$3,518,900 covering the purchase price of Cal-Ore, \$1,600,000, and the remainder to cover improvements and replacements of Dorris's and Cal-Ore's existing telephone facilities and construction of additional facilities. Dorris received formal confirmation from the REA and the RTB, in January 1984, that its request for loan funds had been approved. These loans can be finalized once the Commission approves this proposed financing of the Cal-Ore acquisition. The aggregate effective interest rate for these REA and RTB loans is about 6.51%.

The Commission's Revenue Requirements and Communications Divisions have reviewed the application for the sale and acquisition of Cal-Ore by Dorris through the purchase of all of its outstanding stock from United Telephone and the ultimate

^{1/} RTB is an agency of the United States of America and is subject to the supervision and direction of the Secretary of Agriculture. The bank's general purpose is to provide assured and viable sources of financing to supplement the telephone loan program administered by the REA.

liquidation of Cal-Ore. The Divisions conclude that the proposed acquisition and control of Cal-Ore by Dorris and the liquidation of Cal-Ore would not be adverse to the public interest.

The Revenue Requirements Division has reviewed Dorris' and Cal-Ore's financial statements submitted to the Commission and concludes the proposed financings are for a lawful purposes and should be granted expeditiously to permit United Telephone and Dorris to proceed at once with their transaction.

Findings of Fact

1. Dorris, a California corporation, operates as a telephone utility subject to the jurisdiction of this Commission.
2. Cal-Ore, a California corporation, also operates as a telephone utility subject to the jurisdiction of this Commission.
3. The performance of Dorris's obligations under the final Agreement with United Telephone for acquisition of 100% of Cal-Ore's capital stock would not be adverse to the public interest.
4. The purchase of 100% of the capital stock and the acquisition of control of Cal-Ore by Dorris is for proper purposes and would not be adverse to the public interest.
5. The liquidation of Cal-Ore and the distribution of its assets to Dorris, following the purchase of Cal-Ore's Common stock, is for proper purposes and would not be adverse to the public interest.

6. The operation by Dorris of the Tulalake and Newell exchanges in accord with Cal-Ore's presently filed tariffs would not be adverse to the public interest.

7. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The application, as amended, should be granted to the extent set forth in the order which follows.

In issuing our order, we place Dorris and its stockholders on notice that we do not regard the number of shares outstanding, the total par value of the shares, or the dividends paid as measuring the return it should be allowed to earn on its investment in plant. This authorization is not a finding of the value of Cal-Ore's stock or properties nor does it indicate the amounts to be included in ratesetting proceedings.

The following order should be effective on the date of signature to enable United Telephone and Dorris to proceed with the sale and acquisition of Cal-Ore's common stock expeditiously.

O R D E R

IT IS ORDERED that:

1. On or before December 31, 1984 and in accordance with the terms and conditions of the final Agreement dated November 11, 1983 attached to the application, as amended, as Exhibit A, United Telephone Company of the Northwest (United Telephone) may sell and Dorris Telephone Company (Dorris) may purchase all of the outstanding capital stock of California-Oregon Telephone Co. (Cal-Ore). Dorris may control Cal-Ore.

2. After the transaction described in paragraph 1 has been completed, Dorris may liquidate Cal-Ore.

3. Dorris may then receive and distribute Cal-Ore's assets and properties, record them at their original value, and thereafter operate the Cal-Ore system as a part of Dorris.

4. Dorris shall operate Cal-Ore's telephone system under the terms of Cal-Ore's presently filed tariffs. Thereafter, Dorris shall prepare and file a single set of tariffs of common applicability to the entire Dorris system. These revised tariffs shall preserve in each exchange the authorized rates for each exchange presently in effect, and until these rates are changed in accordance with applicable Commission procedures.

5. As a condition of this grant of authority, Dorris shall assume the public utility obligations of Cal-Ore, shall assume

liability for refunds of all existing customer deposits, and shall notify the affected customers.

6. Within 10 days after the transfer, Dorris shall notify the Commission, in writing, of the date of completion and of the assumption of the obligations set forth in paragraph 5 of this order.

7. Dorris shall either file a statement adopting Cal-Ore's tariffs or refile those tariffs under its own name as prescribed in General Order 96. Rates shall not be increased unless authorized by this Commission.

8. Before the transfer occurs, Cal-Ore shall deliver to Dorris and Dorris shall keep all records of the construction and operation of Cal-Ore's telephone system.

9. Within 90 days after actual transfer, Dorris shall file, in proper form, an annual report on Cal-Ore's operation from the first day of the current year through date of transfer.

10. When this order has been complied with, United shall have no further obligations in connection with Cal-Ore's telephone system.

11. After completing the above transactions and having provided the Commission's Revenue Requirements Division with the required reports, Dorris shall file with the Commission the closing

journal entries effecting the closing of the books and accounts of Cal-Ore and the opening journal entry to record the transfer of Cal-Ore to Dorris's books of original entry.

12. Dorris shall file, with the Commission for its approval, a proposal and accompanying journal entry for the method it plans to use for recording and writing off its telephone plant acquisition adjustment for the payment of the \$200,000 in excess of Cal-Ore's net book value.

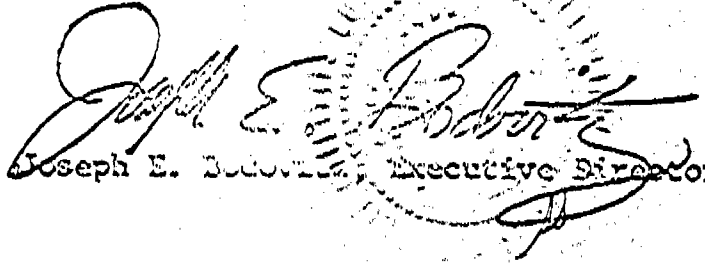
This order is effective today.

Dated MAR 7 1984 at San Francisco, California.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BACLEY
Commissioners

Commissioner Leonard M. Grimes, Jr.,
being necessarily absent, did not
participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Joseph E. Boboville, Executive Director