

JUN 8 1988

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ORIGINAL

Decision 88 06 023

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

In the Matter of the Application )  
of WINTERHAVEN TELEPHONE COMPANY )  
(1) for a certificate of public )  
convenience and necessity; (2) to )  
acquire from Pacific Bell and to )  
operate the Winterhaven exchange, )  
Imperial County, California; )  
(3) to issue common stock in an )  
amount not exceeding \$500,000; )  
and (4) to issue a note in the )  
amount of \$200,000 and related )  
security instruments; )

Application 88-04-045  
(Filed April 15, 1988)

and )

The Application of PACIFIC BELL )  
(U 1001 C) for an order authoriz- )  
ing the sale of its Winterhaven )  
exchange to WINTERHAVEN TELEPHONE )  
COMPANY. )

OPINION

This is an application in which Winterhaven Telephone Company (Winterhaven) seeks a certificate of public convenience and necessity to operate as a telephone corporation. If the requested operating authority is granted, Winterhaven seeks authority to acquire and operate the Winterhaven exchange presently owned by Pacific Bell (PacBell). Winterhaven also seeks authority to issue common stock and a promissory note.

Notice of the filing of the application appeared in the Commission's Daily Calendar on April 20, 1988. There are no protests.

The Commission makes the following findings and conclusion.

Findings of Fact

1. A public hearing is not necessary in this matter.

2. Winterhaven is a California corporation formed for the purpose of acquiring and operating the Winterhaven exchange presently owned and operated by PacBell. At this time, Winterhaven's sole asset consists of an advance from its parent as a short-term loan. Following capitalization pursuant to the plan described in the application, Winterhaven will be a wholly owned subsidiary of National Telephone and Telegraph Company (National) which is also the parent corporation of two California local exchange carriers, Happy Valley Telephone Company (U 1010 C) and Hornitos Telephone Company (U 1011 C).

3. PacBell is California's largest local exchange telephone utility. Among its operating exchanges is the Winterhaven exchange, located in Imperial County.

4. Winterhaven and PacBell have entered into an agreement by which Winterhaven will purchase PacBell's Winterhaven exchange. By the terms of the agreement, Winterhaven will purchase the assets of the exchange from PacBell for a price equal to their net book value on the date of closing. The agreement specifies a tentative purchase price of \$552,400, which was the net book value of the assets on the date of the agreement, derived from an original cost of \$2,156,929 and depreciation of \$1,604,529. This tentative price will be subject to adjustment based on changes in net book value between the date of the agreement and the closing date of the transaction.

The agreement also provides for transfer of operations of the exchange following approval by this Commission. Upon the transfer, Winterhaven will purchase PacBell's then outstanding accounts receivable and customer deposits. The agreement also provides that PacBell will maintain its existing settlement arrangement with Mountain Bell, being reimbursed by Winterhaven for amounts paid, and following 90 days after cut-over of a new central office (or by December 31, 1989, whichever is earlier), Winterhaven will not participate in any intrastate interLATA settlement pools.

5. The Winterhaven exchange is located in the southeastern corner of California, across the Colorado River from the City of Yuma, Arizona. The territory of the Winterhaven exchange is associated with the Arizona LATA which includes Yuma. No real property is to be transferred as part of the exchange. PacBell's only assets consist of rights of way and outside plant facilities such as telephone poles and cables.

6. Presently, the Winterhaven exchange is not served by its own central office switch. A central office in Yuma, Arizona, owned and operated by Mountain Bell, provides the central office switching for customers in the Winterhaven exchange. Prior to divestiture of the Bell system, such cross-state boundary serving arrangements were common and did not require special expense and revenue sharing agreements between the operating Bell companies in adjacent states, due to their common ownership. Since divestiture, however, PacBell has no common ownership with Mountain Bell.

7. Growth and increasing demand in the Winterhaven exchange require the construction of additional plant facilities. It is no longer feasible to expand or add to the existing exchange facilities utilizing the Yuma, Arizona, central office of Mountain Bell. In order to bring needed service to meet service requirements in the Winterhaven exchange, it will be necessary to add central office and toll connection facilities as well as additional local exchange distribution plant. Substantial construction expenditures are necessary to serve this exchange which presently has approximately 1,068 subscribers. It is important that construction be financed by the lowest-cost capital available. With additional construction, Winterhaven estimates that the number of subscribers served in the exchange will grow to 1,250 at the end of 12 months, and 1,500 at the end of 5 years.

8. The type of construction program that will be required is particularly well suited to financing through the Rural Electrification Administration (REA), which has available low-cost

capital to finance needed telephone facilities in rural areas such as the Winterhaven exchange. Winterhaven will be in a position to obtain needed low-cost REA financing. The other local exchange companies which are subsidiaries of National are borrowers under the REA program, and Winterhaven will have available to it the needed expertise to plan for and obtain appropriate REA financing for the needed service improvements. Happy Valley Telephone Company has within the past four years acquired two new exchange properties by purchase from Continental Telephone Company and thereafter has successfully undertaken and completed construction and financing of needed service improvements in each of those exchanges using REA financing and procedures substantially similar to those which will be needed with respect to operation of the Winterhaven exchange.

9. The proposed sale of the Winterhaven exchange to Winterhaven would benefit the customers in that exchange as well as PacBell's ratepayers generally. Since Winterhaven will have access to low-cost capital, improvements can be made to the exchange (such as central office switching) that are not in PacBell's current plans. Winterhaven also intends to establish a physical presence in the exchange by building a business office and installation and repairs facilities. This would result in markedly improved installation and repair time, since PacBell currently provides maintenance and repair from El Centro which is about an hour's traveling distance away. PacBell's ratepayers would benefit since its high operating expenses for this remote exchange would be eliminated.

10. Winterhaven's proposed tariffs are attached to the application as Exhibit E. The tariffs use PacBell's existing exchange rates and rate structure, so that the ratepayers of the Winterhaven exchange will not experience any change of rates as a result of the proposed transaction. Any future proceedings for

revised rates will be conducted within applicable Commission rules and procedures.

11. Winterhaven seeks a certificate of public convenience and necessity and authorization to operate the exchange pursuant to these tariffs. Winterhaven also requests authorization to be included within the group of local exchange companies permitted to use General Order (GO) 96-A to conduct general rate proceedings including its separate access tariff filings as provided in Decision 85-06-115, when it ceases pool participation.

12. Winterhaven also seeks authority to issue common stock to National in an amount not to exceed \$500,000, to issue a note to National in the amount of \$200,000, and to execute related security instruments. The proposed form of note and security instruments are attached to the application as Exhibits G, H, and I. The proceeds of the stock and note will be used to complete purchase of the exchange assets from PacBell and to provide initial operating capital for Winterhaven.

13. The sale and transfer by PacBell of its Winterhaven exchange to Winterhaven would not be adverse to the public interest.

14. Public convenience and necessity require that Winterhaven be granted authority to operate the Winterhaven exchange.

15. It would be reasonable to authorize Winterhaven to use GO 96-A to conduct its general rate proceedings, including its separate access tariff filings.

16. Winterhaven has need for external funds for the purposes set forth in the application.

17. Authorizing Winterhaven to issue capital stock in an amount not to exceed \$500,000 and a note in the sum of \$200,000 to National is proper for the purposes set forth in the application.

18. Since the expeditious consummation of the proposed transfer would be in the public interest, the ensuing order should be made effective on the date of issuance.

Conclusion of Law

The application should be granted.

This authorization is not a finding of the value of rights and properties to be transferred. The reasonableness of any specific acquisition or construction costs may be considered in future rate proceedings.

ORDER

IT IS ORDERED that:

1. Winterhaven Telephone Company (Winterhaven) and Pacific Bell (PacBell) are authorized to conclude the purchase and sale of the Winterhaven exchange pursuant to the terms of the agreement between the parties, as set forth in the application.
2. A certificate of public convenience and necessity is granted to Winterhaven to operate as a telephone corporation as defined in Public Utilities (PU) Code § 234 for the purpose of operating the Winterhaven exchange as a local exchange company.
3. Within 10 days after the sale and transfer of the assets authorized in Ordering Paragraph 1, Winterhaven shall notify the Commission in writing of the date upon which the transaction was consummated.
4. Winterhaven may file the tariffs set forth in the application as prescribed in GO Series 96. Rates shall not be increased unless authorized by this Commission.
5. Within 90 days after actual transfer, Winterhaven shall file, in proper form, an annual report on PacBell's operations from the first day of the current year through date of transfer.
6. When this order has been complied with, PacBell shall have no further public utility obligations in connection with the assets which were transferred.
7. Winterhaven may issue capital stock in an amount not to exceed \$500,000 for the purposes set forth in the application.

8. Winterhaven may issue a note in the sum of \$200,000, and related security instruments, to National Telephone and Telegraph Company for the purposes set forth in the application.

9. The corporate identification number assigned to Winterhaven is U-1021-C which should be included in the caption of all original filings with the Commission, and in the titles of other pleadings filed in existing cases.

10. The authority granted in Ordering Paragraphs 1, 7, and 8 shall expire unless it is exercised before June 30, 1989.

11. The authority to issue stock granted by Ordering Paragraph 7 of this order will become effective when the issuer pays \$1,000 set by PU Code § 1904.1.

12. The authority to issue an evidence of indebtedness granted in Ordering Paragraph 8 of this order shall become effective when the issuer pays \$400 set by PU Code § 1904(b).

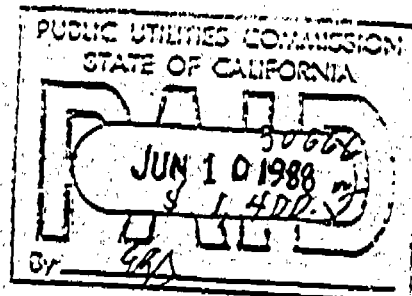
Except for Ordering Paragraphs 11 and 12, this order is effective today.

Dated June 8, 1988, at Carson, California.

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
JOHN B. OHANIAN  
Commissioners

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

*[Signature]*  
Victor W. Weller, Executive Director



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11. The authority to issue an evidence of indebtedness granted in Ordering Paragraph 8 of this order shall become effective when the issuer pays \$400 set by PU Code § 1904(b).

Except for Ordering Paragraphs 10 and 11, this order is effective today.

Dated \_\_\_\_\_ at San Francisco, California.



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Except for Ordering Paragraphs 11 and 12, this order is effective today.

Dated JUN 8 1988, at San Francisco, California.

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
JOHN B. OHANIAN  
Commissioners

