

Decision 91 01 036 JAN 25 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of
HAPPY VALLEY TELEPHONE COMPANY (U-1010-C)
for an Order authorizing it to issue notes
in an amount not exceeding \$956,550, and
to execute a related agreement and
supplemental security instruments.

ORIGINAL

Application 90-11-007
(Filed November 7, 1990)

OPINION

Summary of Decision

This decision grants Happy Valley Telephone Company (Happy Valley) the authority requested under Public Utilities Code (PU Code) §§816-818, 830, and 851 in Application (A.) 90-11-007 to:

1. Enter into a Telephone Loan Contract Amendment (Loan Contract) with the Rural Electrification Administration (REA) and the Rural Telephone Bank (Telephone Bank) for the borrowing from the Telephone Bank, of an aggregate principal amount not to exceed \$956,550 on substantially the same terms and conditions as set forth in Exhibit A attached to the application;
2. Enter into a Supplement to Supplemental Mortgage and Security Agreement (Agreement) with the REA and the Telephone Bank in substantially the form set forth in Exhibit B attached to the application;
3. Issue to the Telephone Bank a Mortgage Note in substantially the form set forth in Exhibit C attached to the application, for an aggregate principal amount not to exceed \$956,550, at the applicable rate of interest for advances under Telephone Bank telephone company subsidized loans (Mortgage Note);

4. Execute and deliver such supplemental mortgages and other security instruments as may be required in the future by the terms of its Telephone Loan Contract, as amended; and
5. Execute and deliver such Telephone Loan Contract basis data or other extension agreements as may be required in the future to permit the further advance of funds under the Telephone Loan Contract.

Notice of the filing of the application appeared on the Commission's Daily Calendar of November 13, 1990. No protests have been received.

Happy Valley operates as a public utility telephone company, under jurisdiction of the California Public Utilities Commission (Commission), furnishing telephone services to portions of Shasta, Tehama, and Trinity Counties, California. Happy Valley is a corporation duly authorized and existing under and by virtue of the laws of the State of California.

Happy Valley reported Total Operating Revenue of \$4,788,954 for 1989 as showed in its 1989 Annual Report. It also reported Net Operating Income of \$1,486,073.

Happy Valley's Balance Sheet, based on the 1989 Annual Report, for the period of December 31, 1989, is summarized below:

<u>Assets</u>	<u>Amount</u>
Not Plant	\$ 8,982,344
Current and Noncurrent Assets	<u>3,552,933</u>
Total	\$12,535,277
 <u>Liabilities and Equity</u>	
Equity	\$ 3,040,044
Long-Term Debt	7,532,821
Current and Accrued Liabilities	420,310
Other Liab. & Deferred Credits	<u>1,542,102</u>
Total	\$12,535,277

Debt Securities

Happy Valley states it is experiencing an increasing demand for higher grades and greater quantity of telephone services provided by it. This demand currently requires the expansion and improvement of Happy Valley's facilities. Happy Valley states that it will require an additional \$956,550 to pay for additions and improvements to plant (including the purchase, associated with the borrowing proposed in the application, of shares of the Class B stock of the Telephone Bank for \$45,550), and that it is unable to finance all of such a large program out of its current earnings or resources. Happy Valley therefore proposes to borrow the necessary funds from the Telephone Bank.

Happy Valley has negotiated and proposes to enter into a Loan Contract with the REA and the Telephone Bank substantially in the form attached to the application as Exhibit A. The proposed loan will be secured by previously executed mortgages and supplemental mortgages of substantially all of Happy Valley's property to the REA and the Telephone Bank and by a proposed new Agreement substantially in the form attached to the application as Exhibit B.

Happy Valley further proposes to issue a Mortgage Note to the Telephone Bank in substantially the form attached to the application as Exhibit C to provide for the long term borrowing by Happy Valley of an aggregate principal amount not to exceed \$956,550. The terms of the Loan Contract require Happy Valley to purchase \$45,550 of Class B stock of the Telephone Bank.

Under the terms of the Loan Contract and the Mortgage Note, money will be advanced to Happy Valley from time to time after the execution of the Mortgage Note. Each advance under the Mortgage Note will bear interest at the various rates determined as provided in paragraph 2 of the Mortgage Note. The Mortgage Note will be payable in amounts and pursuant to schedules more fully set forth in Exhibit C.

Construction Budget

A summary of Happy Valley's anticipated allocation of proceeds from the Debt Securities is as follows:

<u>Item</u>	<u>Amount</u>
Construction Central Office	\$420,000
Outside Plant	347,000
Removal Costs	9,000
Engineering	135,000
Class B Stock - Telephone Bank	<u>45,550</u>
Total Funds Required	\$956,550

The Commission Advisory and Compliance Division (CACD) has reviewed the application and Happy Valley's construction program. CACD concludes that the proposed financing is necessary for the construction program; however, Happy Valley is placed on notice, by this decision, that the Commission does not find that its construction budget is necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.

Capitalization Ratios

Happy Valley's capitalization ratios at December 31, 1989, recorded, and at December 31, 1989, *pro forma*, after giving effect to the proposed issuance of its Debt Securities in the aggregate principal amount of \$956,550 are as set forth below:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$ 7,532,821	71.2%	\$ 8,489,371	73.6%
Common Equity	<u>3,040,044</u>	<u>28.8</u>	<u>3,040,044</u>	<u>26.4</u>
Total	\$10,572,865	100.0%	\$11,529,415	100.0%

Happy Valley is placed on notice, by this decision, that the Commission does not find that its capital ratios are necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or cost of capital proceedings.

Cash Requirements Forecast

Happy Valley's cash requirements forecast for 1991 and 1992 is summarized as follows:

<u>Components</u>	<u>1991</u>	<u>1992</u>
Funds Needed for Construction Expenditures	\$ 1,018,000	\$390,000
Investment in RTB Stock	46,000	-0-
Short Term Debt as of Beginning of Year	<u>-0-</u>	<u>-0-</u>
	\$ 1,064,000	\$390,000
Less: Estimated Internal Cash Generation	<u>1,156,000</u>	<u>297,000</u>
Additional Funds Re- quired from Ex- ternal Sources	\$ (92,000)	\$ 93,000

CACD has analyzed Happy Valley's cash requirements forecasts for 1991 and 1992. CACD has concluded that internally generated funds will provide \$1,156,000 or approximately 108.6% for 1991, and \$297,000 or approximately 76.1% for 1992. CACD concludes that the proposed issuance of Happy Valley's Debt Securities is necessary to help meet forecasted cash requirements which includes capital expenditures. CACD has reviewed the application and has concluded that the proposed issuance of the Debt Securities is reasonable and that the authority should be granted.

Use of Proceeds

Happy Valley states that it has experienced and is experiencing the need to expand and upgrade its telephone plant to meet the increasing demands being placed on its present service. These demands result in the need to make required additions and improvements of portions of its telephone plant. Happy Valley has proposed to use the net proceeds derived from the issuance of the Debt Securities for the construction, completion, extension and improvement of its facilities, and the purchase, associated with the borrowing proposed in its application, of shares of the Class B stock of the Telephone Bank for \$45,550.

Findings of Fact

1. Happy Valley, a California corporation, operates as a telephone utility subject to the jurisdiction of this Commission.
2. Happy Valley has need for external funds for the purposes set forth in the application.
3. The execution of the proposed Telephone Loan Contract Amendment, Supplement to Supplemental Mortgage and Security Agreement, and the Mortgage Note would not be adverse to the public interest.
4. The issuance of the proposed Mortgage Note is for proper purposes.
5. The execution of a supplemental mortgage or mortgages and other security agreements as is required by the Loan Contract, and the execution of a Loan Contract basis date or other extension agreements as may be required in the future to permit further advances of funds under the Loan Contract would not be adverse to the public interest.
6. The money, property, or labor to be procured or paid for by the proposed Mortgage Note is reasonably required for the purposes specified in the application.

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 should be granted to the extent set forth in the order which follows.

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order shall be effective on the date of signature and payment of a fee of \$1,914 set by §1904(b) of the PU Code.

ORDER

IT IS ORDERED that:

1. Happy Valley Telephone Company (Happy Valley), on or after the effective date of this order may, for the purposes set forth in the application, enter into a Telephone Loan Contract Amendment (Loan Contract) with the United States of America acting through the Rural Electrification Administration (REA) and the Rural Telephone Bank (Telephone Bank) under a document which shall be in substantially the same form as set forth in Exhibit A attached to the application.
2. Happy Valley may, in conjunction with entering into the Loan Contract, further enter into a Supplement to the Supplemental Mortgage and Security Agreement with the REA and the Telephone Bank, under a document which shall be in substantially the same form as set forth in Exhibit B attached to the application.

3. Happy Valley may, for the purposes specified in the application, issue a Mortgage Note in the aggregate principal amount not to exceed \$956,550 in substantially the same form as set forth in Exhibit C attached to the application.

4. Happy Valley may execute and deliver supplemental mortgages and other security instruments as are required by the terms of the Loan Contract, and may execute and deliver such Loan Contract basis date or other extension agreements as may be required to permit the further advance of funds within the authorized total under the Loan Contract.

5. Happy Valley shall file, with the Commission Advisory and Compliance Division, copies of the Telephone Loan Contract, Mortgage and Security Agreement, Mortgage Note, supplemental mortgages and other security instruments, and Loan Contract basis date or other extension agreements, 15 days after the documents have been executed.

6. Happy Valley shall file the reports required by General Order Series 24.

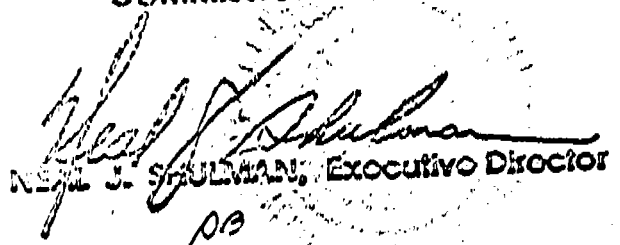
7. The application is granted as set forth above.

8. The authority granted by this order to issue a Mortgage Note will become effective when Happy Valley pays \$1,914, the fee set forth by Public Utilities Code §1904(b). In all other respects this order is effective today.

Dated JAN 25 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

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


NEEL J. SPULMAN, Executive Director
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