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Decision 92-08-041 August 11, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SIERRA TELEPHONE COMPANY, INC.)
U-1016-C, for an Order authorizing it)
to issue notes in an amount not)
exceeding \$3,062,850, and to execute)
a related agreement and supplemental)
security instruments.)

ORIGINAL

Application No. 92-03-043
(Filed March 24, 1992)

O P I N I O N

Summary of Decision

This decision grants Sierra Telephone Company, Inc. (Sierra) the authority requested under Public Utilities Code (PU Code) Articles 5 and 6, Chapter 4, Part 1, Division 1 in Application (A.) 92-03-043 to:

1. 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) for additional long term borrowings of an aggregate principal amount not exceeding \$3,062,850 on substantially the same terms and conditions as set forth in Exhibit A attached to the Application;
2. Enter into a new Restated Mortgage, Security Agreement and Financing Statement (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 (Note) in substantially the form set forth in Exhibit C attached to the Application;
4. Execute and deliver such supplemental mortgages and other security instruments as may be required in the future by the terms of its Loan Contract, as amended;

5. Execute and deliver such Loan Contract basis date or other extension agreements as may be required in the future to permit the further advance of funds under the Loan Contract; and
6. Purchase \$145,850 of Class B stock of Telephone Bank as required by the terms of the Loan Contract amendment.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of March 30, 1992. No protests have been received.

Background

Sierra is a California corporation and operates as a public utility telephone company under the jurisdiction of this Commission. Sierra engages in furnishing telephone services to portions of Madera and Mariposa Counties, California.

The property owned by Sierra and devoted to telephone service is comprised of pole lines, wire, cable, lands, easements, central office equipments, telephones, and other pertinent equipment necessary for providing telephone service.

For the calendar year 1991, Sierra reported it generated total operating revenues of \$24,728,150 and net income of \$8,502,516 as shown as part of Exhibit D to the Application.

Shown also as part of Exhibit D to the Application is Sierra's Balance Sheet for the calendar year 1991 which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Plant	\$37,197,050
Investments	2,001,876
Current and Accumulated Assets	7,514,655
Deferred Charges	<u>212,686</u>
Total	\$46,926,267
<u>Liabilities and Equity</u>	<u>Amount</u>
Capital and Retained Earnings	\$27,725,464
Long Term Debt	12,681,371
Current and Accrued Liabilities	5,381,619
Other Liabilities and Deferred Credits	<u>1,137,813</u>
Total	\$46,926,267

Description of Financing

Sierra has previously made long-term borrowings from The United States of America, acting through REA, and the Telephone Bank. The proposed loan from Telephone Bank will be secured by previously executed mortgages and supplemental mortgages of substantially all of Sierra's property to the REA and the Telephone Bank and by a proposed Agreement. Sierra further proposes to issue a Note to the Telephone Bank to provide for the long-term borrowing of a principal amount not exceeding \$3,062,850 in the aggregate.

The terms of the Loan Contract require Sierra to purchase \$145,850 of Class B stock of the Telephone Bank. Likewise, the Loan Contract and the Note stipulate that money will be advanced to Sierra from time to time after the execution of the Note. Each advance under the Note will bear interest at the various rates determined as provided in Paragraph 2 of the Note and will be payable monthly in amounts and pursuant to schedules set forth in Exhibit C to the Application.

The applicable rate of interest for advances is determined on the date of each advance and is essentially equal to the government's cost of funds. The rates so determined are generally much lower than rates available from private and commercial lenders.

Construction Budget

A summary of Sierra's anticipated allocation of proceeds from the financing is as follows:

<u>Item</u>	<u>Amount</u>
Central Office Equipment:	
Host Office Interface Equipment	
Oakhurst	\$1,458,000
RSC 3,000 lines Mariposa	801,000
RSC 2,220 lines Bootjack	658,000
Class B Stock - Telephone Bank	<u>145,850</u>
 Total Funds Required	 \$3,062,850

The Commission Advisory and Compliance Division (CACD) has reviewed the Application and Sierra's construction program.

CACD concludes that the proposed financing is necessary for the construction program; however, Sierra 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

Sierra's capitalization ratios at December 31, 1991, recorded, and at December 31, 1991, pro forma, after giving effect to the proposed financing in the aggregate principal amount of \$3,062,850 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	\$12,681,371	33.6%	\$15,597,438*	38.3%
Short-Term Debt	5,851,547	15.5%	5,851,547	14.4%
Equity	<u>19,222,948</u>	50.9%	<u>19,222,948</u>	47.3%
Total	\$37,755,866	100.0%	40,671,933	100.0%

*The proposed financing is estimated to produce net proceeds of \$2.9 million.

Sierra 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

Sierra's cash requirements forecast for 1992 and 1993 is summarized as follows:

<u>Components</u>	<u>1992</u>	<u>1993</u>
Funds Needed for Construction	\$ 6,379,987	\$ 6,698,986
Maturities of Long-Term Debt	1,395,060	1,821,456
Maturities of Short-Term Debt	6,000,000	3,000,000
Total	\$13,775,047	\$11,520,442
Less: Estimated Cash Available from Internal Sources	12,950,996	6,987,075 *
Additional New Funds Required from Outside Sources	\$ 824,051	\$ 4,533,367

* reduced revenues due to projected intraLATA competition.

CACD has analyzed Sierra's cash requirements forecast for 1992 and 1993, shown in Sierra's supplemental data to the Application. CACD has concluded that internally generated funds will provide \$12,950,996 or 94% of Sierra's cash requirements for 1992 and \$6,987,075 or 60.6% in 1993. CACD has considered Sierra's intent to obtain the currently below market interest rate loan and concludes that the proposed loan is necessary to help meet forecasted cash requirements which includes capital expenditures.

The Commission has considered CACD's recommendations and, finding them reasonable, will adopt them as stated above.

Use of Proceeds

Sierra states it is experiencing increased demand for higher grades and greater quantity of telephone services. Sierra forecasts a 5% access line growth rate through 1994.

Sierra proposes to use the \$3,062,850 for any or all of the following purposes: (1) to repay money borrowed on a short-term basis used for construction and acquisition of additions and improvements to plant; (2) to finance its 1992 capital budget; and (3) to reimburse its treasury for capital expenditures previously made.

Findings of Fact

1. Sierra, a California corporation, operates as a telephone utility subject to the jurisdiction of this Commission.
2. Sierra has need for external funds for the purposes set forth in the Application.
3. The execution of the proposed Loan Contract, Agreement, and the Note would not be adverse to the public interest.
4. The issuance of the proposed Note is for proper purposes.
5. The execution of the Agreement 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 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.
3. The proposed Loan Contract is for proper purposes and the money, property, or labor to be procured or paid for by the issue of the loan authorized by the decision is reasonably required for purposes specified, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
4. The following order should be effective on the date of signature and payment of a fee of \$4,062.85 as set forth by § 1904 (b) of the PU Code.

O R D E R

IT IS ORDERED that:

1. Sierra Telephone Company, Inc. (Sierra), 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. Sierra 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. Sierra may, for the purposes specified in the Application, issue a Mortgage Note in the aggregate principal amount not to exceed \$3,062,850 in substantially the same form as set forth in Exhibit C attached to the Application.

4. Sierra 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. Sierra 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 not later than 15 days after the documents have been executed.

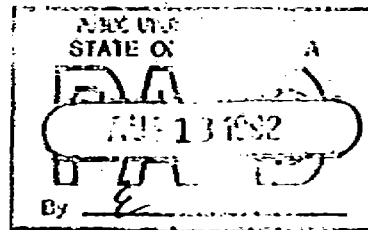
6. On or before the 25th day of each month, Sierra shall file the reports required by General Order Series 24.

7. The authority granted by this order to issue a Mortgage Note will become effective when Sierra pays \$4,062.85, the fee set forth by Public Utilities Code § 1904(b). In all other respects this order is effective today.

Dated August 11, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

Commissioner John B. Ohanian,
being necessarily absent, did not
participate.



R - \$ 4,063. -

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

Neal J. Shulman
NEAL J. SHULMAN, Executive Director