

Decision 82 11 009 NOV 3 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of FORESTHILL TELEPHONE CO., for)
an Order authorizing it to issue)
notes in an amount not exceeding)
\$800,000 and to execute a related)
Finance Agreement, Co-Mortgage)
Agreement, Participation Agreement)
and supplemental security)
instruments.)

Application 82-09-09
(Filed September 7, 1982)

O P I N I O N

Foresthill Telephone Co. (Foresthill) requests authority, under Public Utilities (PU) Code Sections 817 through 818, for the following:

1. To enter into a Financing Agreement, similar to Exhibit 1 attached to the application, with Stromberg-Carlson Corporation (Stromberg) to issue one or more Interim Installment Notes and a Final Installment Note up to the aggregate principal amount of \$800,000 outstanding at any one time;
2. To execute and deliver a Co-Mortgage to Stromberg, S-C 1951 Credit Corporation (S-C Credit) and Western Reserve Life Assurance Company (Western Reserve) similar to that shown in Exhibit 2 attached to the application;
3. To become a party to a Participation Agreement with Stromberg, S-C Credit, and Western Reserve under the terms shown in Exhibit 3 attached to the application;
and

4. To execute and deliver one or more supplemental mortgages and other security instruments as may be required in the future by the terms of the Financing Agreement.

Notice of the filing of the application appeared on the Commission's Daily Calendar of September 10, 1982. No protests have been received.

Foresthill, a California corporation, operates as a telephone utility under the jurisdiction of this Commission. Foresthill provides telephone service in portions of Placer County.

For calendar year 1981, Foresthill reports it generated total operating revenues of \$680,162 and net income of \$97,501 as shown in part of Exhibit 4 attached to the application.

Also shown as part of Exhibit 4 is Foresthill's Balance Sheet, as of December 31, 1981, summarized as follows:

<u>Assets</u>	<u>Amount</u>	
Net Telephone Plant	\$ 992,268	
Other Investments	19,557	
Current Assets	99,451	
Prepaid Accounts and Deferred Charges	<u>18,555</u>	✓
Total	\$1,129,831	
 <u>Liabilities and Equity</u>		
Common Equity	\$ 722,839	
Long-Term Debt	192,000	
Current Liabilities	209,164	
Deferred Credits	<u>5,828</u>	✓
Total	\$1,129,831	

Foresthill states that it needs to upgrade its telephone plant to meet the increasing demands being placed on its present service. These demands result in the need to make required improvements and replacements of portions of the telephone plant. Foresthill states it will require an estimated \$800,000 or more to pay for modifications, replacements, and additions to its plant facilities. A summary of Foresthill's approximate anticipated allocation of the proposed new funds is summarized as follows: ✓

<u>Purpose</u>	<u>Amount</u>
Central Office Equipment	\$425,000
Microwave Equipment	183,000
Outside Plant Construction	<u>192,000</u>
	\$800,000

Foresthill alleges it is unable to finance this large program out of its current earnings or resources and has negotiated a commitment with Stromberg for long-term borrowing in an amount up to \$800,000, under a Financing Agreement. The Financing Agreement contemplates that on December 15, 1983, the utility will issue a Final Installment Note with principal repayable in 180 consecutive, substantially equal, monthly installments, together with interest at the rate of 1-1/2 percentage points over the weighted average yield of "A"-rated public utility bonds^{1/} issued during the three

^{1/} The average yield of "A"-rated public utility bonds on September 23, 1982 was 15.33%.

calendar months immediately preceding December 1983. The form of the Final Installment Note is attached to the application as Exhibit B to Exhibit 1. The Note will be secured by a Co-Mortgage of almost all of the property of Foresthill. The Co-Mortgage will contain about the same terms as the form of Co-Mortgage attached to the application as Exhibit 2. Foresthill will become a party to a Participation Agreement among all of the co-mortgagees of Foresthill's property. The Agreement will contain substantially the same terms as the form of participation agreement attached to the application as Exhibit 3.

The application indicates that Foresthill has made an investigation of several potential sources of long-term debt financing for telephone public utilities of Foresthill's size and scope and having Foresthill's present debt structure and encumbrances. The application states that after conducting a number of meetings with respect to the possible terms and conditions of financing from other sources, including the applicable rates of interest which would be associated with various levels of earnings, Foresthill has ascertained that it would be in its best interest and the least costly to effect the proposed borrowing as described. Foresthill states that the terms of the proposed financing are the best Foresthill can obtain because of market conditions. The terms and rates of interest are necessitated by these conditions.

The Commission's Revenue Requirements and Communications Divisions have reviewed the application and Foresthill's proposed construction program. The Divisions conclude that the proposed financing is necessary to implement Foresthill's proposed construction program but reserve the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings. The Revenue Requirements Division has reviewed Foresthill's financial statements, attached to the application, and has concluded that Foresthill's cash flow is sufficient to meet its debt service requirements.

Findings of Fact

1. Foresthill, a California corporation, operates as a public telephone utility subject to the jurisdiction of this Commission.
2. Foresthill needs external funds for the purposes set forth in the application.
3. The execution of the proposed Financing Agreement, Interim Installment Notes, and Final Installment Note would not be adverse to the public interest.
4. The issuance of the installment notes is for proper purposes.

5. The execution of a Co-Mortgage, a Participation Agreement, supplemental mortgages, and other security agreements as required by the Financing Agreement would not be adverse to the public interest.

6. The money, property, or labor to be procured or paid for by the proposed notes is reasonably required for the purposes specified in the application.

7. There is no known opposition and 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 is required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable Foresthill to proceed with its financings expeditiously.

O R D E R

IT IS ORDERED that:

1. Foresthill Telephone Co. (Foresthill) on or after the effective date of this order and on or before December 15, 1983, may, for the purposes set forth in the application, enter into a Financing Agreement with Stromberg-Carlson Corporation and may issue Interim Installment Notes and a Final Installment Note in the maximum principal amount at any one time outstanding not exceeding \$800,000. The documents shall be in substantially the same form as Exhibit 1 attached to the application.

2. Foresthill may, in conjunction with entering into the Financing Agreement, execute and deliver a Co-Mortgage to, and may become a party to a Participation Agreement with, Stromberg-Carlson Corporation, S-C 1951 Credit Corporation, and Western Reserve Life Assurance Company. The Co-Mortgage and Participation Agreement shall contain about the same terms, respectively, as the documents attached to the application as Exhibits 2 and 3.

3. Foresthill may execute and deliver supplemental co-mortgages and other security instruments as may be required by the terms of the Financing Agreement.

4. Foresthill shall file the reports required by General Order Series 24.

5. The authority granted by this order to issue Interim Installment Notes and a Final Installment Note will be effective when Foresthill pays \$1,600, the fee set by PU Code Section 1904(b).

Dated NOV 3 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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

Joseph E. Bodovitz
Joseph E. Bodovitz, Executive Director

