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Decision No. 88333 JAN 17 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

## Application of

DORRIS TELEPHONE COMPANY,  
a corporation.

to engage in \$1,903,850 of combined Rural Electrification Administration and Rural Telephone Bank financing.

Application No. 57610  
(Filed October 6, 1977)

O P I N I O N

Dorris Telephone Company (Dorris Telephone) requests authority (a) to enter into a Telephone Loan Contract, (b) to issue Rural Electrification Administration and Rural Telephone Bank<sup>1/</sup> mortgage notes in the aggregate principal amount of \$1,903,850, and (c) to execute and deliver a Mortgage and Security Agreement.

Dorris Telephone is a California corporation furnishing telephone service in and about the community of Dorris in Siskiyou County. The most recent operating statement and balance sheet are attached to the application as Exhibit G. The exhibit indicates that for the twelve months ended June 30, 1977, the utility's total operating revenues and net income amounted to

1/ The Rural Telephone Bank 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 Rural Electrification Administration.

\$282,005 and \$33,215, respectively. The balance sheet on June 30, 1977 is summarized as follows:

<u>Assets</u>	
Telephone plant less reserve for depreciation	\$381,909
Other assets	<u>59,558</u>
Total	<u>\$441,467</u>

<u>Liabilities</u>	
Long-term debt	\$ 88,387
Common stock	47,800
Other capital	10,800
Retained earnings	253,767
Notes payable	8,100
Other liabilities	<u>32,613</u>
Total	<u>\$441,467</u>

Dorris Telephone has experienced and is experiencing an increasing demand for its telephone services and for higher grades of such services. These demands now require the improvement and replacement of major portions of the utility's existing telephone facilities and the construction of additional facilities. The company will require in excess of an additional \$1,903,850 to pay for modifications, replacements, and additions to plant. Included in this amount is approximately \$88,387 needed to discharge previously authorized indebtedness bearing interest at rates of from 6% to 9.75%, originally incurred for the purchase of plant, and \$40,850 to acquire Class B stock of Rural Telephone Bank.<sup>2/</sup> Specifically the utility proposes to allocate the funds needed for the following purposes:

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<sup>2/</sup> Borrowers receiving loans from the Rural Telephone Bank are required to purchase Class B Stock in an amount equal to 5 percent of each loan, excluding any part of the loan obtained to finance the purchase of the stock.

<u>Item</u>	<u>Amount</u>
Central office equipment, including removal costs	\$ 671,500
Buildings and land	216,000
Outside plant and station equipment, including removal costs	672,500
Engineering and right of way	125,600
Office equipment, vehicles and work equipment	53,400
Contingencies and allocable overhead costs	<u>35,613</u>
Subtotal	<u>\$1,774,613</u>
Retirement of outstanding indebtedness	88,387
Class B Stock, Rural Telephone Bank	<u>40,850</u>
Grand Total	<u><u>\$1,903,850</u></u>

Dorris Telephone cannot finance its large construction program from its current earnings or resources and has, therefore, negotiated a Telephone Loan Contract with the United States Government acting through the Rural Electrification Administration, and with the Rural Telephone Bank, to provide for long-term borrowing of not exceeding \$1,903,850. The form of the contract is attached to the application as Exhibit B.

Under the terms of the contract, money will be advanced to Dorris Telephone from time to time, after the execution of Mortgage Notes designated No. 1, No. 2, and No. 3. The notes substantially in the form to be executed are attached to the application as Exhibits C, D, and E, respectively. They are repayable in equal quarterly installments over a period of 35 years. Note No. 1 and Note No. 2 in the respective amounts of \$88,000 and \$769,850, bearing interest at the rate of 6.5% per annum, will be given to the Rural Telephone Bank. Note No. 3 in the amount of \$1,046,000, bearing interest at a rate of 5%, will

be given to the Rural Electrification Administration. The notes will be secured by a proposed Mortgage and Security Agreement in substantially the form set forth in Exhibit F of the application, and such additional supplemental mortgage or mortgages as may be required.

A summary of estimated net income and cash flow prepared by the company has been furnished to the staff and is received as Exhibit 1 in this proceeding. This exhibit indicates that Dorris Telephone would generate estimated operating revenues and net operating income of \$466,864 and \$135,910, respectively. Estimated cash flow from operations would amount to \$226,073, of which \$162,455 would be applied to the servicing of debt. The remaining \$63,618 would be available for future plant additions and for working capital.

The Communications Division reviewed the application and inspected the company's facilities in conjunction with the construction program, and concurs with the Finance Division's conclusion that the proposed financing is necessary to implement the utility's construction program. The Communications Division reserves the right, however, to reconsider the reasonableness of any construction expenditures in future rate proceedings.

After considering this matter the Commission finds that:

1. The execution of the Telephone Loan Contract and the Mortgage and Security Agreement would not be adverse to the public interest.
2. The issuance of the proposed Mortgage Notes in the aggregate principal amount of not exceeding \$1,903,850, is for proper purposes.
3. The money, property, or labor to be procured or paid for by the Mortgage Notes herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition, and no reason to delay granting the authority requested in the application. On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. The authorization granted herein is for the purposes of this proceeding only, and is not to be construed as indicative of the amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Dorris Telephone Company, on or after the effective date hereof and on or before July 1, 1978, for the purposes set forth in the application, may enter into a Telephone Loan Contract with the United States of America acting through the Rural Electrification Administration and with Rural Telephone Bank, which document shall be in substantially the same form set forth in Exhibit B, attached to the application.
2. Dorris Telephone Company may issue Mortgage Notes in the aggregate principal amount of not exceeding \$1,903,850 in substantially the same forms set forth in Exhibits C, D, and E, attached to the application.
3. Dorris Telephone Company may execute and deliver to the United States of America and Rural Telephone Bank a Mortgage and Security Agreement in substantially the same form as Exhibit F, attached to the application, and such Supplemental Mortgages or Security Agreements as are required by the terms of said Telephone Loan Contract.
4. Dorris Telephone Company shall file with the Commission a report, or reports, as required by General Order 24-B, which order, insofar as applicable, is hereby made a part of this order.

5. This order shall become effective when Dorris Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$2,816.

Dated at San Francisco, California, this 17th day of JANUARY, 1978.

President  
William J. Lyons  
Vernon L. Stutzman  
Richard D. Howell  
Chairman D. Dedrick  
Commissioners

Commissioner Robert Batinevich, being necessarily absent, did not participate in the disposition of this proceeding.

