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Decision No. 88473 FEB 7 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of)
)
 DUCOR TELEPHONE COMPANY,)
 a corporation,)
)
 to engage in \$157,000 of)
 Rural Electrification)
 Administration financing.)

Application No. 57664
(Filed November 2, 1977)

O P I N I O N

Ducor Telephone Company (Ducor) requests authority

(a) to enter into a Telephone Loan Contract Amendment with the United States of America acting through the Rural Electrification Administration, (b) to issue a Rural Electrification Administration Mortgage Note in the principal amount of not exceeding \$157,000, and (c) to execute and deliver a supplemental mortgage or mortgages as are required under the terms of the Telephone Loan Contract Amendment.

Ducor is a California corporation furnishing telephone service in and about the community of Ducor in Tulare County. By Decision No. 87960, dated October 12, 1977, in Application No. 56450, Ducor was authorized by this Commission to provide telephone service to the community of Rancho Tehama, located within Tehama County.

Ducor's most recent operating statement and balance sheet are attached to the application as Exhibit C. The exhibit indicates that for the twelve months ended June 30, 1977, Ducor's total operating revenues and net income amounted to \$205,855 and

\$36,538, respectively. The balance sheet at June 30, 1977 is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Telephone plant less reserve for depreciation	\$592,727
Other assets	<u>97,249</u>
Total	<u>\$689,976</u>
<u>Liabilities</u>	
Long-term debt	\$530,274
Common stock	31,400
Retained earnings	87,464
Current liabilities	<u>40,838</u>
Total	<u>\$689,976</u>

The long-term debt of \$530,274, as of June 30, 1977, represents the outstanding Rural Electrification Administration note, authorized by this Commission in Decision No. 81818, dated August 28, 1973, in Application No. 54187.

Ducor has experienced and is experiencing an increasing demand for its telephone services and for higher grades of such services in the community of Ducor.

These demands now require the construction of additional facilities. The company will require in excess of an additional \$157,000 to pay for additions to plant. Specifically, Ducor proposes to allocate the funds needed for the following purposes:

<u>Item</u>	<u>Amount</u>
Central office equipment	\$ 76,000
Buildings	42,000
Outside plant and station equipment	18,000
Engineering	10,000
Office equipment, vehicles, and work equip.	9,000
Contingencies and allocable overhead costs	2,000
Total	<u>\$157,000</u>

Ducor cannot finance such a large construction program from its current earnings or resources. It has, therefore, negotiated a Telephone Loan Contract Amendment with the United States of America, acting through the Rural Electrification Administration, to provide for additional long-term borrowing of not exceeding \$157,000. The form of the amended loan contract is attached to the application as Exhibit A.

Under the terms of the amended loan contract, money will be advanced to Ducor from time to time after the execution of a Mortgage Note. The note, a copy of which is attached to the application as Exhibit B, will bear interest at the rate of 2%, and principal and interest will be repayable in quarterly installments over a period of 35 years. The note will be secured by the present mortgage dated as of October 23, 1973 which was previously executed by Ducor and delivered to the Rural Electrification Administration, and by such supplemental mortgage or mortgages as may be required under terms of the amended loan contract.

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 Ducor would generate estimated operating revenues and net operating income of \$203,404 and \$42,269, respectively. Estimated cash

flow from operations would amount to \$75,483, of which \$45,245 would be available for future plant additions and for working capital.

The Communications Division has reviewed the application and has concluded that the additional capital expenditures of \$157,000 are reasonable and necessary for upgrading the telephone system. The Division, however, does not concur with the provision in Section 6 of the amended loan contract whereby Ducor would be required to seek Commission authorization to exclude mileage or zone charges on any grade of service. The proposal is contrary to the ratemaking philosophy of this Commission, which with rare exceptions, has established rate designs which give reasonable recognition to the relative cost of service. Zone or mileage rate treatment, especially in rural areas, accomplishes this objective. In addition, Section 728 of the California Public Utilities Code requires this Commission, in fixing rates, to take into consideration rates for comparable service in adjacent territory. Nearly all rural exchange territories in California employ zone or mileage rate treatment. For these reasons any proposal by the utility to exclude mileage or zone charges from its tariffs would not be authorized.

Ducor does not seek authority in this application to exclude mileage or zone charges on any grade of service, and no increase in exchange rates or change in service would be necessary as a result of the proposed loan.

The Finance Division has evaluated the application and has concluded that the terms of the proposed financing are reasonable except for the provision in Section 6 of the amended loan contract. Moreover, Ducor's cash flow should be sufficient to pay quarterly installments of principal and interest on a timely basis.

After considering this matter the Commission finds that:

1. The provision in Section 6 of the Telephone Loan Contract Amendment conflicts with the ratemaking concepts of this Commission with respect to zone or mileage rate treatment.
2. Ducor Telephone Company does not seek authority to exclude mileage or zone charges on any grade of service.
3. Granting the applicant authority to execute the Telephone Loan Contract Amendment for the purpose of this proceeding does not preclude the Commission from exercising its jurisdiction over mileage or zone charges.
4. The execution of a supplemental mortgage or mortgages would not be adverse to the public interest.
5. The issuance of the proposed Mortgage Note in the principal amount of not exceeding \$157,000 is for a proper purpose.
6. The money, property, or labor to be procured or paid for by the Mortgage Note herein authorized is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition, and there is 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. Furthermore, nothing in this decision is to be construed as concurrence in the reasonableness of serving arrangements or tariff modifications contained in the Telephone Loan Contract Amendment.

O R D E R

IT IS ORDERED that:

1. Ducor Telephone Company, on or before the effective date hereof and on or before July 1, 1978, for the purpose set forth in the application, may enter into a Telephone Loan Contract Amendment with the United States of America acting through the Rural Electrification Administration.

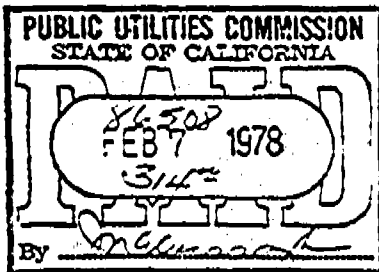
2. Ducor Telephone Company may issue a Mortgage Note in the principal amount of not exceeding \$157,000 in substantially the same form set forth in Exhibit B attached to the application.

3. Ducor Telephone Company may execute and deliver such supplemental mortgages as are required by the terms of said Telephone Loan Contract Amendment.

4. Ducor 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 Ducor Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$314.

Dated at San Francisco, California, this 7th day of FEBRUARY, 1978.



Roluf Botwinich
President
William Sproule Jr.
Robert W. Shaeffer
David T. Schriber
Commissioners