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Decision No. 89260 AUG 22 1978

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of)
)
 DUCOR TELEPHONE COMPANY,)
 a corporation,)
)
 to engage in \$504,000 of)
 Rural Telephone Bank)
 financing.)
 _____)

Application No. 58161
(Filed June 22, 1978)

O P I N I O N

In this application, Ducor Telephone Company (Ducor) seeks authority to enter into a telephone loan contract amendment with the United States of America acting through the Rural Electrification Administration and with Rural Telephone Bank (Bank) to issue a Mortgage Note to the Bank in a principal amount not exceeding \$504,000, and to execute a supplemental mortgage and security agreement and such other supplemental 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.

For the year 1977, Ducor's operating revenues and net income totalled \$200,498 and \$29,501, respectively. The balance sheet as of December 31, 1977 is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Telephone plant less reserve for depreciation	\$641,270
Investments	15,178
Current assets	71,723
Deferred charges	<u>3,535</u>
Total	<u>\$731,706</u>

<u>Liabilities</u>	
Long-term debt	\$542,485
Common stock	31,400
Retained earnings	105,648
Current liabilities	<u>52,173</u>
Total	<u>\$731,706</u>

The present application cites the demand for new and higher grades of telephone service and the obligation to provide service in the recently awarded Rancho Tehama Exchange area as the purposes for the proposed financing. Rancho Tehama consists of about 75 permanently occupied homes and about 170 weekend and seasonal homes. The proceeds of the loan would be allocated approximately as follows:

Central office equipment	\$170,000
Buildings and land	68,000
Outside plant and station equipment	178,000
Engineering	45,000
Office equipment, vehicles and work equipment	10,500
Contingencies and allocable costs in above categories	<u>8,500</u>
Subtotal	<u>480,000</u>
Rural Telephone Bank Stock	<u>24,000^{1/}</u>
Total	<u>\$504,000</u>

^{1/} 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.

Ducor has negotiated a telephone loan contract amendment with the United States of America, acting through the Rural Electrification Administration and with Rural Telephone Bank to provide for additional long-term financing of not exceeding \$504,000. Pursuant to the amendment, money will be advanced to Ducor from time to time after the execution of a Mortgage Note. The Note will bear interest at the rate of 6.5%, principal and interest will be payable in quarterly installments over a period of 35 years. Said Note will be secured by a supplemental mortgage and security agreement in substantially the form attached as Exhibit C to the application, and such other supplemental mortgages as are required under the terms of the amended loan contract.

As of December 31, 1977, Ducor's ratio of debt to total capital was near 80%. On a pro forma basis, giving effect to the financing proposed by the present application and the loan already approved by Decision No. 88473, the debt ratio is near 90%. Owing to the very low cost of REA money, however, this comparatively large debt ratio should not prove intolerable to the applicant.^{2/} Pursuant to the staff's request, Ducor provided a pro forma income statement and cash flow statement, which included financing proposed in Applications Nos. 57664 and 58161 and the additional revenues expected from the Rancho Tehama Exchange. The statements indicate that there will be adequate funds generated from applicant's operations to service the company's debt.

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

^{2/} We note that Ducor's existing debt carries an interest rate of 2%.

After considering this matter the Commission finds that:

1. The execution of a supplemental mortgage or mortgages would not be adverse to the public interest.
2. The issuance of the proposed mortgage note in the principal amount not exceeding \$504,000 is for a proper purpose.
3. 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.

O R D E R

IT IS ORDERED that:

1. Ducor Telephone Company, on or before the effective date hereof and on or before December 31, 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 not exceeding \$504,000 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 the 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 twenty days after Ducor Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,008.

Dated at San Francisco, California, this 22nd day of AUGUST, 1978.

Robert Bateman
President
William J. ...
...

Commissioners



Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Clair T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.