

RR/lq

Decision No. 92417 NOV 18 1980**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 THE PONDEROSA TELEPHONE CO. )

for an Order authorizing it to issue )  
 a note in an amount not exceeding )  
 \$7,219,000 and to execute a related )  
 agreement and supplemental security )  
 instruments. )

Application No. 59946  
 (Filed September 17, 1980)

O P I N I O N

The Ponderosa Telephone Co. (Ponderosa) requests authority, pursuant to Sections 817 and 818 of the Public Utilities Code, (a) to enter into a Telephone Loan Contract Amendment; (b) to issue a Rural Electrification Administration (REA) Mortgage Note (Mortgage Note) in the aggregate principal amount not to exceed \$7,219,000; and (c) to execute and deliver one or more supplemental mortgages and other security instruments as may be required in the future by the terms of its Telephone Loan Contract, as amended.

Notice of the filing of the application appeared on the Commission's Daily Calendar of September 23, 1980.

Ponderosa is a California corporation supplying telephone service in portions of Fresno and Madera Counties. For the calendar year 1979, Ponderosa reported in its Annual Report to the Commission that it generated total operating revenues of \$2,726,468 and net income of \$61,633. The most recent operating statement and balance sheet are attached to the application as Exhibit C. This exhibit indicates that

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for the six-months ended June 30, 1980, the utility's total operating revenues were \$1,446,383 and its net income was \$55,146. The Balance Sheet as of June 30, 1980 is summarized as follows:

<u>Assets and Other Debits</u>	<u>Amount</u>
Net Telephone Plant	\$ 9,237,796
Other Investments and Funds	56,250
Current Assets	875,002
Prepaid and Deferred Charges	<u>22,132</u>
Total	<u>\$10,191,180</u>
 <u>Liabilities and Other Credits</u>	
Common Stock Equity	\$ 2,155,438
Long-Term Debt	7,479,375
Current and Accrued Liabilities	502,434
Deferred Credits	<u>53,933</u>
Total	<u>\$10,191,180</u>

Ponderosa is experiencing the need 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. The company will require an estimated \$7,219,000 or more to pay for modifications, replacements and additions to plant facilities. A summary of the approximate anticipated allocation of these funds is as follows:

<u>Purpose</u>	<u>Amount</u>
Central Office Equipment	\$3,341,000
Outside Plant & Station Equipment	2,781,000
Right-of-way Procurement	45,000
Removal Costs	51,000
Buildings	183,000
Engineering	608,000
Contingencies & Allocable Costs in Above Categories	<u>210,000</u>
Total	<u>\$7,219,000</u>

Ponderosa states it is unable to finance its large construction program from its current earnings or resources and has, therefore, negotiated a Telephone Loan Contract Amendment with the United States Government acting through the Rural Electrification Administration (REA) and the Rural Telephone Bank<sup>1/</sup> (Bank) to provide for long-term borrowing not to exceed \$7,219,000. The form of the contract amendment is attached to the application as Exhibit A.

Under the terms of the contract, money will be advanced to Ponderosa from time-to-time after the execution of the Mortgage Note in substantially the form attached to the application as Exhibit B. The Mortgage Note in the amount of \$7,219,000 to be given to the Government by the utility will bear interest at the rate of 5% per annum and is repayable in equal quarterly installments over a period of 35 years. The Mortgage Note and other supplemental mortgage or mortgages as are required under the terms of the Telephone Loan Contract (as amended) will be secured by the present mortgage to the Government and the Bank by the utility.

Ponderosa requests that competitive bidding not be required in connection with the issuance of the proposed Mortgage Note, notwithstanding the amount of the loan requested. The reason, the utility believes the request to dispose with competitive bidding is reasonable, is that the interest rate of the proposed borrowing is so clearly below the prevailing market rates for similar borrowings that there is no possibility that competitive bidding will result in a lower interest rate. In addition, applicant's property is presently subject to encumbrances in favor of the same lender who proposes to issue the requested loan, and no competing lender would be willing to make such a loan without obtaining a first lien upon applicant's properties. Finally, applicant's management has inquired of several sources of potential loan funds and has determined that there are no funds available for lending at or near the rate of the proposed Mortgage Note.

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<sup>1/</sup> 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.

The staffs of the Revenue Requirements Division and the Communications Division have reviewed the application and the utility's proposed construction program. The divisions conclude that the proposed financing is necessary to implement Ponderosa's proposed construction program; however, the Communications Division reserves the right to reconsider the reasonableness of any construction expenditures in future rate proceedings.

Findings of Fact

1. Ponderosa is a California corporation and a telephone utility subject to the jurisdiction of this Commission.
2. Ponderosa has need for external funds for the purposes set forth in the application.
3. The execution of the proposed Telephone Loan Contract Amendment and the Mortgage Note would not be adverse to the public interest.
4. The issuance of the proposed Mortgage Note is for proper purposes.
5. The issuance and sale of the proposed Mortgage Note should not be required to be through competitive bidding.
6. The execution of a supplemental mortgage or mortgages and other security agreements would not be adverse to the public interest.
7. There is no known opposition and there is no reason to delay granting the authority requested.
8. The money, property or labor to be procured or paid for by the Mortgage Note herein authorized are reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

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 authorization granted herein is for the purpose 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. The Ponderosa Telephone Co., on or after the effective date hereof and on or before June 30, 1981 may, for the purposes set forth in the application, enter into a Telephone Loan Contract Amendment with the United States of America acting through the Rural Electrification Administration and with Rural Telephone Bank, under a document which shall be in substantially the same form as set forth in Exhibit A attached to the application.
2. The Ponderosa Telephone Co. may, for the purposes specified in the application, issue a Mortgage Note in the aggregate principal amount not to exceed \$7,219,000 in substantially the same form as set forth in Exhibit B attached to the application.
3. The Ponderosa Telephone Co. may execute and deliver such supplemental mortgages and other security instruments as are required by the terms of the Telephone Loan Contract.
4. The proposed loan is exempt from the Commission's competitive Bidding Rule set forth in Decision No. 38614, dated January 15, 1946 as amended in Case No. 4761.
5. The Ponderosa Telephone Co. 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.

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6. This order shall become effective when The Ponderosa Telephone Co. has paid the fee prescribed by Section 1904(b) of the Public Utilities Code which fee is \$8,219.

Dated NOV 18 1980, at San Francisco, California.

John E. Byrne  
President  
William L. ...  
Richard W. ...  
Clare T. ...  
James W. ...  
Commissioners

PUBLIC UTILITIES COMMISSION  
STATE OF CALIFORNIA  
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By Myrlene