

NOV 3 1981

Decision 93670

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of EVANS TELEPHONE COMPANY for an)
Order authorizing it to issue notes)
in an aggregate amount not exceed-)
ing \$5,112,000 and to execute a)
related agreement and original and)
supplemental security instruments.)

Application 60924
(Filed September 23, 1981)

O P I N I O N

Evans Telephone Company (Evans) requests authority, under Public Utilities (PU) Code Sections 817 and 818 for the following:

1. To enter into a Telephone Loan Contract (Loan Contract) with the Rural Electrification Administration (REA) and the Rural Telephone Bank^{1/} (Telephone Bank),
2. To enter into a Mortgage and Security Agreement (Agreement) with the REA and the Telephone Bank,
3. To issue to the REA and the Telephone Bank Mortgage Notes in the aggregate principal amount of up to \$5,112,000, 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 Loan Contract.

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 REA.

: Notice of the filing of the application appeared on the Commission's Daily Calendar of September 25, 1981. No protests have been received.

Evans, a California corporation, operates as a telephone utility under the jurisdiction of this Commission. Evans engages in the business of providing telephone service in a portion of Stanislaus County.

For the calendar year 1980, Evans reported it generated total operating revenues of \$1,510,200 and net income of \$138,841 shown as part of Exhibit F attached to the application.

Also shown as part of Exhibit F is Evans' Balance Sheet as of December 31, 1980 which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Telephone Plant	\$2,514,754
Current Assets	387,049
Deferred Charges	64,786
Other Assets	222,939
Total	<u>\$3,189,528</u>
<u>Liabilities and Common Equity</u>	
Stockholder's Equity	\$1,628,429
Long-Term Debt	1,054,047
Current Liabilities	437,301
Deferred Credits	69,751
Total	<u>\$3,189,528</u>

Evans 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 \$5,112,000 or more to pay for modifications, replacements, and additions to plant facilities, and for refinancing of its existing debt in connection with its new borrowings. A summary of the approximate anticipated allocation of these funds is as follows:

<u>Item</u>	<u>Amount</u>
Central Office Equipment	\$ 795,600
Outside Plant & Station Equipment	1,772,000
Right-of-Way Procurement	20,000
Removal Costs	225,000
Land	6,000
Buildings	65,000
Engineering	450,000
Vehicles and Work Equipment	105,000
Acquisition of Headquarters - Central Office Building and Sales and Service Facility	358,000
Class B Stock - Telephone Bank	153,000
Debt Retirement with Loan Funds	1,160,978
Debt Retirement with Company Funds	34,000
Contingencies & Allocable Costs in above Categories	1,422
SUBTOTAL	<u>5,146,000</u>
Less Application of Company Funds to Retire Debt	(34,000)
TOTAL	<u>\$5,112,000</u>

(Red Figure)

Evans states it is unable to finance its large construction program from its current earnings or resources and has, therefore, negotiated a Loan Contract with the United States Government acting through REA and the Telephone Bank to provide for long-term borrowing in an amount up to \$5,112,000. The form of the Loan Contract is attached to the application as Exhibit A. The Loan

Contract will be secured by a Mortgage and Security Agreement of substantially all of Evans' property to the REA and the Telephone Bank. The form of Mortgage and Security Agreement is attached to the application as Exhibit B.

Under the terms of the Loan Contract, money will be advanced to Evans from time to time after the execution of the Mortgage Notes in substantially the form attached to the application as Exhibits C, D, and E. The Mortgage Notes in the amount of \$5,112,000 to be given to the REA and the Telephone Bank by the utility will bear interest at a composite rate of approximately 8.9% per annum and are repayable in quarterly installments over a period of 35 years. From time to time Evans will be required under the terms of the Loan Contract to execute a supplemental mortgage or mortgages and other security instruments in favor of its secured lenders.

Under the Loan Contract, Evans will also be required to purchase \$153,000 of Class B stock of the Telephone Bank.

Evans has previously made long-term borrowings from Stromberg-Carlson Corporation and Nationwide Life Insurance Company, under authority granted by the Commission. These borrowings are presently outstanding and are secured by a mortgage on the

assets of Evans. These previously authorized long-term loans totaled \$839,978 as of December 31, 1980, which balance is composed of notes of \$96,228 to Stromberg-Carlson Corporation and \$743,750 to Nationwide Life Insurance Company.

These loans must be refinanced by the proposed loan before the REA will authorize the proposed loan because the U.S. Government will not take second mortgages. In addition, the loan proceeds will be used, together with \$34,000 of company funds, to repay other company debt consisting of outstanding short-term notes in the amount of \$355,000.

Evans requests that competitive bidding not be required in connection with the issuance of the proposed Mortgage Notes. The reason Evans believes the request to dispense 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, Evans' 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 composite rate of the proposed Mortgage Notes.

The Commission's 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 Evans' proposed construction program; however, the Divisions reserve the right to reconsider the reasonableness of any construction expenditures in future rate proceedings.

Findings of Fact

1. Evans, a California corporation, operates as a telephone utility subject to the jurisdiction of this Commission.
2. Evans has need for external funds for the purposes set forth in the application.
3. The execution of the proposed Loan Contract, Agreement, and the Mortgage Notes would not be adverse to the public interest.
4. The issuance of the proposed Mortgage Notes is for proper purposes.
5. The issuance and sale of the proposed Mortgage Notes should not be required to be through competitive bidding.
6. The execution of a supplemental mortgage or mortgages and other security agreements as is required by the Loan Contract would not be adverse to the public interest.
7. The money, property or labor to be procured or paid for by the proposed Mortgage Notes is reasonably required for the purposes specified in the application.

8. There is no known opposition and there is 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 following order should be effective on the date of signature to enable Evans to issue debt securities expeditiously.

O R D E R

IT IS ORDERED that:

1. Evans Telephone Company, (Evans) on or after the effective date of this order and on or before June 30, 1982 may, for the purposes set forth in the application, enter into a Telephone Loan Contract with the United States of America acting through the Rural Electrification Administration (REA) and with Rural Telephone Bank (Telephone Bank) under a document which shall be in substantially the same form as set forth in Exhibit A attached to the application.

2. Evans may, in conjunction with entering into the Telephone Loan Contract, further enter into a Mortgage and Security Agreement with the REA and the Telephone Bank, under a document which shall be in substantially the same form as set forth in Exhibit B attached to the application.

3.: Evans may, for the purposes specified in the application, issue Mortgage Notes in the aggregate principal amount of up to \$5,112,000 in substantially the same forms as set forth in Exhibits C, D, and E attached to the application.

4. Evans may execute and deliver supplemental mortgages and other security instruments as are required by the terms of the Telephone Loan Contract.

5. The proposed loan is exempt from the Commission's competitive bidding rule set forth in Decision 38614, dated January 15, 1946 as amended in Case 4761.

6. Evans shall file the reports required by General Order Series 24.

7. This order shall become effective upon payment of the \$5,273 fee set by PU Code Section 1904(b) after taking credit for the retirement of \$839,978 principal amount of long-term loans being refunded.

Dated NOV 3 1981, 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 today.
John E. Bryson

