

EC/KLH

Decision 87 10 013

OCT 16 1987

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 DUCOR TELEPHONE COMPANY (U 1007 C) )  
 for an Order authorizing it to issue )  
 a note in an amount not exceeding ) Application 86-04-036  
 \$657,000 and to execute a Telephone ) (Filed April 21, 1986)  
 Loan Contract Amendment and supple- )  
 mental security instruments. )  
 \_\_\_\_\_ )

## O P I N I O N

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

1. To enter into a Telephone Loan Contract Amendment (Loan Contract Amendment) with the Rural Electrification Administration (REA) and the Rural Telephone Bank (RTB)<sup>1/</sup>;
2. To issue to the REA a mortgage note not to exceed the principal amount of \$657,000; and
3. 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 Agreement, as amended.

Summary of Decision

This decision grants Ducor the authority requested in its application to issue a mortgage note and to execute related security agreements.

<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 REA.

Notice of the filing of the application appeared on the Commission's Daily Calendar of April 23, 1986. No protests have been received.

Ducor, a California corporation, operates as a telephone utility subject to the jurisdiction of this Commission. Ducor provides telephone service in portions of Tulare County.

For the period ending December 31, 1985, Ducor reported in its Operating Statement and Retained Earnings or Margins Analysis that it generated total operating revenues of \$881,340 and net income of \$133,134 shown as part of Exhibit C attached to the application.

Also shown as part of Exhibit C is Ducor's Balance Sheet as of December 31, 1985, summarized below:

<u>Assets</u>	<u>Amount</u>
Net Telephone Plant	\$1,411,706
Other Investments and Funds	135,625
Current Assets	495,249
Deferred Charges	<u>107,969</u>
Total	\$2,150,549
 <u>Liabilities and Equity</u>	
Common Equity	\$ 618,013
Long-Term Debt	1,372,870
Current and Accrued Liabilities	70,834
Deferred Credits	<u>88,832</u>
Total	\$2,150,549

Ducor states it 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 \$657,000 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>Item</u>	<u>Amount</u>
Central Office Equipment	\$535,000
Outside Plant and Station Equipment	18,000
Buildings	46,000
Removal Costs	4,000
Engineering	<u>54,000</u>
Total	\$657,000

Ducor states it is not in a position to finance this large program out of its current earnings or resources and proposes to borrow the necessary funds from the REA.

Ducor has previously made long-term borrowings from the United States of America, acting through the REA and the RTB. Ducor now desires to make additional long-term borrowings from the REA. Ducor has negotiated and proposes to enter into a Loan Contract Amendment with the REA and the RTB in substantially the form attached to the application as Exhibit A. The proposed loan will be secured by previously executed mortgages and supplemental mortgages which provide for liens on substantially all of Ducor's property in favor of the REA and RTB. Ducor further proposes to issue a mortgage note to the REA in substantially the form attached to the application as Exhibit B. The mortgage note

will bear interest at the rate of 5% per year and will be payable monthly in amounts and pursuant to a schedule more fully set forth in Exhibit B attached to the application.

Under the existing loan contract, as amended, Ducor is obligated, from time to time, to execute supplemental mortgages and other security instruments in favor of Ducor's secured lenders. Ducor requests that it be authorized to continue to execute and deliver supplemental mortgages and other security instruments as may be required by the terms of its loan contract, as amended. Under the terms of the Loan Contract Amendment and mortgage note, money will be advanced to Ducor, from time to time, after the execution of the mortgage note.

The Commission's Evaluation and Compliance Division (E&C Division) has reviewed the application and the proposed construction program. The E&C Division concludes that the proposed financing is necessary to implement Ducor's proposed construction. Ducor is placed on notice, by this decision, that the Commission does not find that Ducor's proposed construction is necessary or reasonable for ratefixing purposes. This is an issue normally tested in general rate or rate base offset proceedings.

The E&C Division has reviewed Ducor's financial statements attached to the application, and concludes that Ducor's cash flow is sufficient to meet its debt service requirements.

Findings of Fact

1. Ducor, a California corporation, operates as a telephone utility subject to the jurisdiction of this Commission.
2. Ducor has need for external funds for the purposes set forth in the application.
3. The execution of the proposed 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 execution of a supplemental mortgage, or mortgages, and other security agreements as is required by the Telephone Loan Contract, as amended, would not be adverse to the public interest.
6. The money, property or labor to be procured, or paid for, by the proposed mortgage note is reasonably required for the purposes specified in the application.
7. The Commission does not, by this decision, determine that Ducor's proposed construction is necessary or reasonable for ratefixing purposes. This issue is normally tested in general rate or rate base offset proceedings.
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 proposed security issue is for lawful purposes and the money, property or labor to be obtained from it is required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable Ducor to issue its mortgage note expeditiously.

O R D E R

IT IS ORDERED that:

1. Ducor Telephone Company (Ducor) on or after the effective date of this order and on or before December 31, 1988 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 the Rural Telephone Bank, under a document which shall be in substantially the form as set forth in Exhibit A attached to the application.
2. Ducor may, for the purposes specified in the application, issue a mortgage note in the principal amount not exceeding \$657,000, substantially in the form as set forth in Exhibit B attached to the application.

3. Ducor may execute and deliver a supplemental mortgage, or mortgages, and other security instruments as are required by the terms of the Telephone Loan Contract, as amended.

4. Ducor shall file the reports required by General Order Series 24.

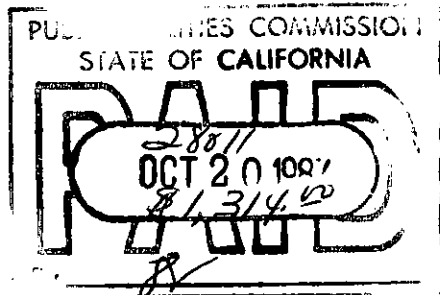
5. Ducor shall use the net proceeds from the sale of its mortgage notes for the purposes set forth in the application.

6. This application is granted as set forth above.

The authority granted by this order to issue a mortgage note will become effective when Ducor pays \$1,314, the fee set by Public Utilities Code Section 1904(b). In all other respects, this order is effective today.

Dated OCT 16 1987, at San Francisco, California.

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
G. MITCHELL WILK  
Commissioners



Commissioner John B. Ohanian, being necessarily absent, did not participate.



*[Faint, illegible markings or text]*