

CACD/BVC

Decision 90-06-056

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of WINTERHAVEN TELEPHONE)
COMPANY (U-1021-C) for an Order)
authorizing it to issue notes in)
an aggregate amount not exceeding)
\$2,956,800 and to execute a)
related agreement and original)
and supplemental security)
instruments.)

Application 90-02-033
(Filed February 16, 1990)

O P I N I O N

Summary of Decision

This decision grants Winterhaven Telephone Company (Winterhaven) the authority requested in the application.

Winterhaven requests authority, pursuant to Sections 817, 818 and 851 of the California Public Utilities Code (PU Code), for the following:

1. To enter into a Telephone Loan Contract (Loan Contract) with the Rural Telephone Bank (Telephone Bank);
2. To enter into a Mortgage and Security Agreement (Agreement) with the Telephone Bank;
3. To issue, to the Telephone Bank, Mortgage Notes (Debt Securities) in an aggregate principal amount not to exceed \$2,956,800; and
4. To execute and deliver one or more supplemental mortgages and other security instruments as may be required by the terms of the Loan Contract, and such Loan Contract basis date or other extension agreements as may be required to permit the further advance of funds under the Loan Contract.

Notice of the filing of the application appeared on the Commission's Daily Calendar of February 22, 1990. No protests have been received.

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

For the calendar year 1989, Winterhaven reported it generated total operating revenues of \$547,458 and a net operating loss of \$73,320 shown as part of Winterhaven's Annual Report to the Commission.

Also shown as part of the Annual Report is Winterhaven's Balance Sheet as of December 31, 1989 which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Plant	\$2,472,372
Current Assets	<u>930,679</u>
Total	\$3,403,051

<u>Liabilities and Equity</u>	<u>Amount</u>
Equity	\$ 410,336
Funded Debt--Other	200,000
Adv. from Affiliated Companies	-0-
Current and Accrued Liabilities	<u>2,792,715</u>
Total	\$3,403,051

Debt Securities

Winterhaven 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 Telephone Bank to provide for long-term borrowing in an amount up to \$2,956,800. Exhibit A to the application is a copy of the Loan

Contract. The loan will be secured by a Mortgage and Security Agreement of substantially all of Winterhaven's property to the Telephone Bank. Exhibit B to the application is a copy of the agreement.

Under the terms of the Loan Contract, funds will be advanced to Winterhaven from time to time after the execution of the Mortgage Note. Exhibit C to the application is a copy of the Mortgage Note. The Debt Securities will bear interest as provided in paragraph 2 of Exhibit C to the application. Such rates are generally and consistently much lower than rates available from private and commercial lenders. Repayment will be in monthly installments over a period of 24 years. From time to time, Winterhaven 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 and may be required to execute Loan Contract basis date extension agreements to permit further advances of the authorized amount of the Debt Securities.

As part of the Loan Contract, Winterhaven will also be required to purchase \$140,800 of Class B stock of the Telephone Bank.

Construction Budget

A summary of Winterhaven's construction budget for 1990 follows:

<u>Item</u>	<u>Amount</u>
Construction Central Office	\$ 906,000
Outside Plant	1,216,000
Special Project	28,000
Building	230,000
Engineering	436,000
Class "B" Stock -- Telephone Bank	<u>140,800</u>
Total	\$2,956,800

The Commission Advisory and Compliance Division (CACD) has reviewed the application and Winterhaven's construction program. The CACD concludes that the proposed financing is necessary for the construction program; however, Winterhaven is placed on notice, by this decision, that the Commission does not find that its construction budget is necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.

Capitalization Ratios

Winterhaven's capitalization ratios at December 31, 1989, recorded, and at December 31, 1989, pro forma after giving effect to the proposed issuance of its Debt Securities in the aggregate principal amount of \$2,956,800 are as set forth below:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$ 200,000	32.8%	\$3,156,800	88.5%
Common Stock	<u>410,336</u>	<u>67.2</u>	<u>410,336</u>	<u>11.5</u>
Totals	\$ 610,336	100.0%	\$3,567,136	100.0%

Winterhaven is placed on notice, by this decision, that the Commission does not find that its capital ratios are necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or cost of capital proceedings.

Cash Requirements Forecast

Winterhaven's cash requirements forecast for 1990, 1991, and 1992 is summarized as follows:

<u>Components</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Funds Needed for Construction Expenditures	\$1,601,215	\$ -0-	\$ -0-
Short Term Debt as of Beginning of Year	<u>1,694,000</u>	<u>-0-</u>	<u>-0-</u>
	\$3,295,215	\$ -0-	\$ -0-
Less: Estimated Internal Cash Generation	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Additional Funds Re- quired from Ex- ternal Sources	\$3,295,215	\$ -0-	\$ -0-

The CACD has analyzed Winterhaven's cash requirements forecasts for 1990, 1991, and 1992. The CACD has concluded that internally generated funds will not provide any amount of Winterhaven's cash requirements for 1990, 1991, and 1992. The CACD concludes that the proposed issuance of Winterhaven's Debt Securities is necessary to help meet forecasted cash requirements which includes capital expenditures. The CACD has reviewed the application and has concluded that the proposed issuance of the Debt Securities is reasonable and that the authority should be granted.

Use of Proceeds

Winterhaven states that it has experienced and is experiencing the need to expand and upgrade its telephone plant to meet the increasing demands being placed on its present service. These demands result in the need to make required additions and improvements of portions of the telephone plant. Winterhaven has proposed to use the net proceeds derived from the

issuance of the Debt Securities for the construction, completion, extension and improvement of its facilities, and the purchase, associated with the borrowing proposed in its application, of shares of the Class B stock of the Telephone Bank for \$140,800.

Findings of Fact

1. Winterhaven, a California corporation, operates as a telephone utility subject to the jurisdiction of this Commission.

2. Winterhaven 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 execution of a supplemental mortgage or mortgages and other security agreements as is required by the Loan Contract and of Loan Contract basis date or other extension agreements as may be required in the future to permit further advances of funds under the Loan Contract would not be adverse to the public interest.

6. 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.

7. 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 by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order shall be effective on the date of signature and payment of a fee of \$3,957 set by §1904(b) of the PU Code.

ORDER

IT IS ORDERED that:

1. Winterhaven Telephone Company (Winterhaven), on or before December 31, 1990 may enter into a Telephone Loan Contract with the 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. Winterhaven may, in conjunction with entering into the Telephone Loan Contract, further enter into a Mortgage and Security Agreement with 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. Winterhaven may, for the purposes specified in the application, issue Debt Securities in the aggregate principal amount not to exceed \$2,956,800 in substantially the same form as set forth in Exhibit C attached to the application.

4. Winterhaven may execute and deliver supplemental mortgages and other security instruments as are required by the terms of the Telephone Loan Contract and Loan Contract basis date or other extension agreements as may be required.

5. Winterhaven shall file, with the CACD, copies of the Telephone Loan Contract, Mortgage and Security Agreement, Mortgage Note, supplemental mortgages and other security instruments, and Loan Contract basis date or other extension agreements, 15 days after the documents have been executed.

5. Winterhaven shall file the reports required by General Order Series 24.

6. The application is granted as set forth above.

7. The authority granted by this order to issue a Mortgage Note will become effective when Winterhaven pays \$3,957, the fee set forth by Public Utilities Code §1904(b). In all other respects this order is effective today.

Dated June 20, 1990, at San Francisco, California.

FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

President G. Mitchell Wilk,
being necessarily absent, did
not participate.