

Decision 90 08 022 AUG 8 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 THE SISKIYOU TELEPHONE COMPANY)
 (U-1017-C) for an Order authorizing)
 it to issue notes in an aggregate)
 amount not exceeding \$6,998,250 and)
 to execute a related agreement and)
 original and supplemental security)
 instruments.)

Application 90-02-032
(Filed February 16, 1990)

O P I N I O N

Summary of Decision

The Siskiyou Telephone Company (Siskiyou) requests authority, under Sections 817 and 818 of the Public Utilities Code, for the following:

1. To enter into a Telephone Loan Contract Amendment (Loan Contract) with the United States of America acting through the Rural Electrification Administration (REA) and the Rural Telephone Bank (Telephone Bank).
2. To enter into a Supplement to the Supplemental Mortgage and Security Agreement (Agreement) with the REA and the Telephone Bank.
3. To issue, to the Telephone Bank, a Mortgage Note in the aggregate principal amount not to exceed \$6,998,250 (Mortgage Note).
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, and such Loan Contract basis date or other extension agreements as may be required in the future 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.

Siskiyou, a California corporation, operates as a telephone utility under the jurisdiction of this Commission. Siskiyou engages in the business of providing telephone service in Siskiyou and Humboldt Counties.

For the calendar year ended December 31, 1989, Siskiyou reported it generated net operating revenues of \$6,375,341 and net income of \$1,780,572 as provided in the 1989 Annual Report.

Siskiyou's Balance Sheet, based on the 1989 Annual Report, for the period of December 31, 1989, is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Plant	\$ 8,998,270
Current and Noncurrent Assets	<u>3,001,823</u>
Total	\$12,000,093
 <u>Liabilities and Equity</u>	
Equity	\$ 4,555,612
Long-Term Debt	4,662,562
Current and Accrued Liabilities	1,235,352
Other Liab. & Deferred Credits	<u>1,546,567</u>
Total	\$12,000,093

Debt Securities

Siskiyou 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 REA and the Telephone Bank to provide for long-term borrowing in an amount not to exceed \$6,998,250. The form of the Loan Contract is attached to the application as Exhibit A. The loan will be secured by a Supplement to the outstanding Supplemental Mortgage

and Security Agreement pledging substantially all of Siskiyou's property to the REA and the Telephone Bank. The form of Agreement is attached to the application as Exhibit B.

Under the terms of the Loan Contract, money will be advanced to Siskiyou from time to time after the execution of the Mortgage Note in substantially the form attached to the application as Exhibit C. The Mortgage Note, in an amount not to exceed \$6,998,250, to be given to the Telephone Bank by the utility will bear interest at various rates determined 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 sixteen years. From time to time, Siskiyou 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 loan.

Under the Loan Contract, Siskiyou will also be required to purchase \$333,250 of Class B stock of the Telephone Bank.

Construction Budget

A summary of Siskiyou's anticipated allocation of proceeds from the Debt Securities is as follows:

<u>Item</u>	<u>Amount</u>
Construction Central Office	\$3,438,000
Outside Plant	1,287,000
Building	12,000
Special Project	1,250,000
Engineering	678,000
Class B Stock - Telephone Bank	<u>333,250</u>
Total Funds Required	\$6,998,250

The Commission Advisory and Compliance Division (CACD) has reviewed the application and Siskiyou's construction program. The CACD concludes that the proposed financing is necessary for the construction program; however, Siskiyou 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

Siskiyou'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 \$6,998,250 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	\$4,663,000	50.6%	\$11,661,250	71.9%
Common Stock	<u>4,556,000</u>	<u>49.4</u>	<u>4,556,000</u>	<u>28.1</u>
Total	\$9,219,000	100.0%	\$16,217,250	100.0%

Siskiyou 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

Siskiyou'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	\$1,998,000	\$2,500,000	\$2,500,000
Short Term Debt as of Beginning of Year	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	\$1,998,000	\$2,500,000	\$2,500,000
Less: Estimated Internal Cash Generation	<u>998,000</u>	<u>500,000</u>	<u>500,000</u>
Additional Funds Re- quired from Ex- ternal Sources	\$1,000,000	\$2,000,000	\$2,000,000

The CACD has analyzed Siskiyou's cash requirements forecasts for 1990, 1991, and 1992. The CACD has concluded that internally generated funds will provide approximately 50% or \$998,000 of Siskiyou's cash requirements for 1990, and approximately 20% or \$500,000 of Siskiyou's cash requirements for 1991 and 1992. The CACD concludes that the proposed issuance of Siskiyou'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

Siskiyou 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 its telephone plant. Siskiyou 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 \$333,250.

Findings of Fact

1. Siskiyou, a California corporation, operates as a telephone utility subject to the jurisdiction of this Commission.
2. Siskiyou has need for external funds for the purposes set forth in the application.
3. The execution of the proposed Telephone Loan Contract Amendment, Supplement to Supplemental Mortgage and Security Agreement, 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 Loan Contract, and the execution of a 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 Note 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 \$7,999 set by §1904(b) of the PU Code.

ORDER

IT IS ORDERED that:

1. The Siskiyou Telephone Company (Siskiyou), on or after the effective date of this order may, for the purposes set forth in the application, enter into a Telephone Loan Contract Amendment (Loan Contract) with the United States of America acting through the Rural Electrification Administration (REA) and 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. Siskiyou may, in conjunction with entering into the Loan Contract, further enter into a Supplement to the Supplemental 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. Siskiyou may, for the purposes specified in the application, issue a Mortgage Note in the aggregate principal amount not to exceed \$6,998,250 in substantially the same form as set forth in Exhibit C attached to the application.
4. Siskiyou may execute and deliver supplemental mortgages and other security instruments as are required by the terms of the Loan Contract, and may execute and deliver such Loan

Contract basis date or other extension agreements as may be required to permit the further advance of funds within the authorized total under the Loan Contract.

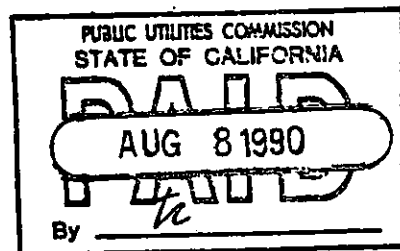
5. Siskiyou shall file, with the CACD, copies of the Telephone Loan Contract, Mortgage and Security Agreement, Mortgage Note, supplemental mortgages and other security instruments, and Loan Contract basis date or other extension agreements, 15 days after the documents have been executed.

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

7. The application is granted as set forth above.

8. The authority granted by this order to issue a Mortgage Note will become effective when Siskiyou pays \$7,999, the fee set forth by Public Utilities Code §1904(b). In all other respects this order is effective today.

Dated AUG 8 1990, 1990 at San Francisco, California.



G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OGANIAN
PATRICIA M. ECKERT
Commissioners