

CACD/RHG

Decision 93-05-048 May 19, 1993

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 the )  
issuance of a note in an amount not )  
exceeding \$10,587,150 and to mortgage )  
utility property )

Application 93-02-029  
(Filed February 11, 1993)

O P I N I O N

Summary of Decision

This decision grants The Siskiyou Telephone Company (Siskiyou) the authority requested in Application 93-02-029 (Application).

Siskiyou requests authority, pursuant to §§ 816 through 851 of the Public Utilities (PU) 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 (RTB).
2. To execute and deliver to the RTB a Mortgage Note (Note) in an amount not exceeding \$10,587,150.
3. To execute and deliver a Restated Mortgage, Security Agreement and Financing Statement (Mortgage Agreement) attendant to the issuance of the Note.
4. To execute a Supplement to the Mortgage Agreement.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of February 19, 1993. No protests have been received.

Background

Siskiyou is a California corporation and operates as a local exchange telephone company providing service to portions of Siskiyou and Humboldt Counties. Siskiyou's property consists principally of telephone facilities, including central office equipment, aerial and buried cable, land and buildings.

Siskiyou has experienced additional demand for telephone service and for system improvements. In response to such demand, Siskiyou will require an additional expenditure of more than \$10,000,000 to pay for additions and plant improvements. Siskiyou states in the Application that it is not in a position to finance the construction program out of its current earnings or reserves.

For the year ended September 30, 1992, Siskiyou reported it generated total operating revenues of \$8,570,499 and net income of \$2,942,264, as shown as part of Exhibit B to the Application.

Also a part of Exhibit B is Siskiyou's Balance Sheet at September 30, 1992, which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Plant	\$13,741,577
Noncurrent Assets	1,231,675
Current Assets	<u>6,649,597</u>
Total Assets	\$21,622,849
<u>Liabilities and Equity</u>	<u>Amount</u>
Stockholders' Equity	\$ 6,932,204
Long Term Debt - REA and RTB	9,285,092
Other Liabilities & Deferred Credits	1,607,005
Current Liabilities	<u>3,798,548</u>
Total Liabilities & Equity	\$21,622,849

Mortgage Note

Siskiyou proposes to obtain the required financing from the REA and the RTB, and execute and deliver a Loan Contract and Note in substantially the same form as set forth in Exhibits C and D, respectively, of its Application. The Note will be repaid in amortizing monthly installment payments commencing two years after execution and concluding sixteen years after execution, with interest rates to be determined for each advance by reference to

the Rural Electrification Act of 1936 and implementing regulations, which rates are essentially the Bank's cost of money.

The Note will be secured by a Mortgage Agreement pledging substantially all of Siskiyou's property to the REA and the RTB. The form of the Mortgage Agreement is attached to the Application as Exhibit E. From time to time, Siskiyou will be required under the terms of the Loan Contract to execute a Supplement 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.

The Loan Contract provides for an increase of \$10,587,150 in the amount of the loan from the RTB and requires Siskiyou to purchase an additional \$504,150 of Class B stock of the RTB. Decision (D.) 90-03-022 dated August 8, 1990, authorized Siskiyou to enter into a Loan Contract and issue to the RTB a mortgage note in the aggregate principal amount of \$6,998,250.

Construction Budget

Siskiyou's estimated construction budget including the purchase of additional Class B shares of the RTB is as follows:

<u>Item</u>	<u>Amount</u>
Central office equipment	\$ 1,954,439
Electronic equipment	2,460,686
Outside plant	3,087,989
Land and buildings	1,228,000
Engineering costs	1,247,007
Removals	104,879
Class B Stock - RTB	<u>504,150</u>
Total Funds Required	\$10,587,150

CACD advises us that Siskiyou's proposed construction budget raises no questions that should dissuade us from giving favorable consideration to the financing requested in this Application. We will not, however, make a finding in this decision on the reasonableness of the proposed construction program. Construction expenditures and the resulting plant balances in rate

base are issues which are normally addressed in general rate cases or other ratemaking proceedings.

### Capital Ratios

Siskiyou's capital ratios at September 30, 1992, shown as part of the supplemental data to the Application, are presented below as recorded and as adjusted to give pro forma effect to the transactions that follow:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$ 9,285,092	57.25%	\$19,872,242 (1)	71.71%
Preferred Stock	418,000	2.58%	418,000	1.51%
Common Equity	<u>6,514,204</u>	<u>40.17%</u>	<u>7,420,766</u> (2)	<u>26.78%</u>
Total	\$16,217,296	100.00%	\$27,711,008	100.00%

(1) Adjusted to reflect the proposed \$10,587,150 Note.

(2) Adjusted to reflect the increase in retained earnings resulting from the projected income from additional demand for telephone service and system improvements.

Capital structures are normally subject to review in general rate case or cost of capital proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Cash Requirements Forecast

Siskiyou's cash flow statement for 1992 and 1993 which appears in its supplemental data is as follows:

<u>Components</u>	<u>1992</u>	<u>1993</u>
Funds required for construction -		
Capital	\$14,289,893	\$1,612,175
Removals	245,326	-
Long term debt retired	249,777	300,000
RTB stock	504,150	-
Total	\$15,289,146	\$1,912,175
Less:		
Cash from internal sources (net of dividends & changes in working capital & other)	<u>3,787,996</u>	<u>1,912,175</u>
Additional funds required from external sources	\$11,501,150	\$ -

CACD has reviewed Siskiyou's cash requirements forecast for 1992 and 1993 which indicates that internally generated funds will only provide 24.78% of Siskiyou's cash requirements for 1992. Siskiyou projects it will need funds from external sources amounting to \$11,501,150 for 1992. Siskiyou's proposed issuance of the Note is necessary to help meet the forecasted cash requirements which include major capital expenditures.

We have considered Siskiyou's projections and, finding them reasonable, will adopt them as stated above.

Use of Proceeds

Siskiyou proposes to use the proceeds from the Note for multiple purposes, including the purchase of additional Class B shares of the RTB, acquisition and installation of new and upgraded central office equipment and line equipment, changeover to digital equipment in many areas, expansion of transmission capacity between central offices, replacement of obsolete distribution and open wire, construction of additional outside plant where needed, drops for new subscribers, and construction of a new headquarters facility.

Siskiyou claims that its existing headquarters facility in Ft. Jones is old and inconvenient for present operations and

that it plans to build a new \$900,000 headquarters facility in Etna. As a result, business and customer service operations will be moved twelve miles to the proposed Etna headquarters. Siskiyou will continue to use the Ft. Jones buildings for switching and other operations and will lease a vacant space to the company's cellular subsidiary.

We will not make a finding in this decision concerning the ratemaking treatment of Siskiyou's plant investment or a reasonableness review of Siskiyou's operations. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate cases or other ratemaking proceedings.

Findings of Fact

1. Siskiyou, a California corporation, operates as a public 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 Loan Contract, Note, Mortgage Agreement, and Supplement are for proper purposes and would not be adverse to the public interest.
4. The Commission does not by this decision determine that Siskiyou's construction budget, capital ratios, and cash requirements forecast are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case or cost of capital proceedings.
5. The money, property, or labor to be procured or paid for by the proposed Note is reasonably required for the purposes specified in the Application.
6. 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.
3. The proposed issuance of the Note is for lawful purposes, and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the Notes may not be charged to operating expenses or income.
4. Siskiyou should pay the fee determined in accordance with PU Code § 1904(b).

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, The Siskiyou Telephone Company (Siskiyou) may, for the purposes set forth in Application 93-02-029 (Application) execute and deliver to the United States of America, acting through the Rural Electrification Administration (REA) and the Rural Telephone Bank (RTB), a Telephone Loan Contract Amendment (Loan Contract) in substantially the same form as set forth in Exhibit C attached to the Application.
2. Siskiyou may, in conjunction with its entering into the Loan Contract, further enter into a Supplement to the Supplemental Mortgage and Security Agreement (Mortgage Agreement) with the REA and the RTB, under a document which shall be in substantially the same form as set forth in Exhibit E attached to the Application.
3. Siskiyou may issue a Mortgage Note (Note) in the aggregate principal amount not to exceed \$10,587,150 in substantially the same form as set forth in Exhibit D attached to the Application.

4. Siskiyou may execute and deliver the Supplement as 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 maintain and within thirty days from request, provide the Commission Advisory and Compliance Division (CACD) any or all of the following: Loan Contract, Mortgage Agreement, Note, Supplement, other security instruments, and Loan Contract basis date or other extension agreements.

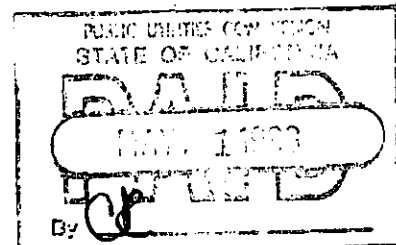
6. On or before the 25th day of each month, Siskiyou shall file the reports required by General Order Series 24.

7. The Application is granted as set forth above.

8. The authority granted by this order to issue the Note shall become effective when Siskiyou pays \$11,293.58, the fee set forth by Public Utilities Code § 1904(b). In all other respects this order is effective today.

Dated May 19, 1993, at San Francisco, California.

DANIEL Wm. FESSLER  
President  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
P. GREGORY CONLON  
Commissioners



\$11,293.58

Receipt # 36448