

CACD/RHG

Decision 93-09-047 September 1, 1993

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
The Ponderosa Telephone Company)
(U-1014-C) for an Order authorizing)
it to issue notes in an amount not)
exceeding \$8,607,900, and to execute)
a related agreement and restated)
mortgage and security instruments.)

Application 91-10-023
(Filed October 11, 1991)

In the Matter of the Application of)
The Ponderosa Telephone Co.)
(U-1014-C) for an Order authorizing)
it to issue notes in an amount not)
exceeding \$2,623,950, and to execute)
a related agreement and supplemental)
mortgage and security instruments.)

Application 93-05-053
(Filed May 26, 1993)

O P I N I O N

Summary of Decision

This Decision grants The Ponderosa Telephone Company (Ponderosa) the authority requested under Public Utilities (PU) Code Articles 5 and 6 in Application (A.) 91-10-023 and A.93-05-053 (Applications) to:

1. Enter into Telephone Loan Contract Amendments (Loan Contract) with the United States of America, acting through the Rural Electrification Administration (REA), and the Rural Telephone Bank (Telephone Bank) for the borrowing from the Telephone Bank of aggregate principal amounts not to exceed \$8,607,900 and \$2,623,950, on substantially the same terms and conditions as set forth in exhibits attached to the Applications;

2. Enter into a Restated Mortgage, Supplement to Restated Mortgage, Security Agreements, and Financing Statements (Agreements) in substantially the form set forth in exhibits attached to the Applications;
3. Issue to the Telephone Bank Mortgage Notes in substantially the form set forth in exhibits attached to the Applications for aggregate principal amounts not to exceed \$8,607,900 and \$2,623,950, at interest rates applicable to such Telephone Bank loans;
4. Execute and deliver such supplemental mortgages and other security instruments as may be required in the future by the terms of its Loan Contract, as amended; and
5. Execute and deliver 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 filings of A.91-10-023 and A.93-05-053 appeared on the Commission's Daily Calendar on October 23, 1991, and June 14, 1993, respectively. No protests have been received.

Under Rule 55 of the Commission's Rules of Practice and Procedure, proceedings involving related questions of law or fact may be consolidated. Ponderosa's Applications are substantially similar in that they both request authority to engage in borrowings from the Telephone Bank for similar purposes. They are therefore consolidated and will be addressed jointly in this Decision.

Background

Ponderosa operates as a public utility telephone company under the jurisdiction of the California Public Utilities Commission, furnishing local exchange telephone services to portions of Fresno, Madera, and San Bernardino Counties.

Ponderosa reported total operating revenues of \$17,957,065 and net operating income of \$6,816,863 for calendar year 1992 in its 1992 Annual Report filed pursuant to General Order 104.

Ponderosa's Balance Sheet for December 31, 1992, based on its 1992 Annual Report, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Plant	\$27,273,028
Current and Noncurrent Assets	<u>20,359,442</u>
Total	\$47,632,470
<u>Liabilities and Equity</u>	<u>Amount</u>
Equity	\$24,111,982
Long-Term Debt	14,265,558
Current and Accrued Liabilities	5,841,099
Other Liab. & Deferred Credits	<u>3,413,831</u>
Total	\$47,632,470

Debt Securities

Ponderosa states that it is experiencing an increasing demand for higher grades and greater quantity of telephone services provided by it. This demand requires the expansion and improvement of Ponderosa's facilities. Ponderosa states that it will require an additional \$8,607,900 (A.91-10-023) and \$2,623,950 (A.93-05-053) to pay for additions and improvements to plant (including the purchase of shares of the Class B stock of the Telephone Bank for \$409,900 and \$124,950, respectively, as required by the terms of the Loan Contract). Ponderosa maintains that it is not in a position to and does not deem it advisable to finance all of such a large program from its current earnings or resources, and therefore proposes to borrow the necessary funds from the Telephone Bank.

Ponderosa has negotiated Loan Contract Amendments with REA and the Telephone Bank substantially in the form attached to A.91-10-023 as Exhibit B and A.93-05-053 as Exhibit A. The proposed loans will be secured by previously executed mortgages and supplemental mortgages of substantially all of Ponderosa's property to REA and the Telephone Bank and by proposed new Agreements substantially in the forms attached to the Applications as Exhibit C (A.91-10-023) and Exhibit B (A.93-05-053).

Ponderosa further proposes to issue Mortgage Notes to the Telephone Bank in substantially the form attached to the Applications as Exhibit D (A.91-10-023) and Exhibit C (A.93-05-053) to provide for borrowing long-term aggregate principal amounts not to exceed \$8,607,900 and \$2,623,950 respectively.

Under the terms of the Loan Contract and the Mortgage Notes, funds will be advanced to Ponderosa from time to time after the execution of the Mortgage Notes, with each advance bearing interest at the various rates determined for that advance in accordance with the Rural Electrification Act of 1936 as amended, and the implementing federal regulations. The Mortgage Notes will be payable in substantially equal amounts monthly over periods of twenty-one and twenty-two years respectively.

Ponderosa's Cash Requirements

The Commission Advisory and Compliance Division's (CACD) Finance Branch has reviewed Ponderosa's 1990 through 1992 Annual Reports to the Commission, and the cash requirements forecast for 1992 and 1993 provided in Ponderosa's letter of July 16, 1993. Finance Branch reports that Ponderosa's balance sheet is exceptionally strong and that it is well capable of financing its proposed construction program through internally generated funds and reserves. Nonetheless, Finance Branch recommends the Commission approve these proposed borrowings. As Ponderosa notes in A.93-05-053,

. . . the applicable rate of interest for advances under RTB loans is . . . essentially equal to the U.S. government's cost of funds during the fiscal year in which the advance is made. The rates so determined are generally and consistently much lower than rates available from private and commercial lenders.

Because Telephone Bank borrowings represent a much lower cost of capital than either equity or other forms of debt, it is to Ponderosa's great advantage to avail itself of such funds whenever financing is needed. Under cost of service ratemaking, the

benefits of Ponderosa's lower cost of capital will eventually flow through to its subscribers.

Capital Ratios

Ponderosa's capital ratios as of December 31, 1992, as recorded in its 1992 Annual Report and adjusted to give pro forma effect to the Applications' proposed borrowings in the aggregate principal amounts of \$8,607,900 and \$2,623,950, are 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	\$14,265,558	37.2%	\$25,497,408	51.4%
Total Equity	<u>24,111,982</u>	<u>62.8</u>	<u>24,111,982</u>	<u>48.6</u>
 Total	 \$38,377,540	 100.0%	 \$49,609,390	 100.0%

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 Ponderosa's projected capital ratios for ratemaking purposes.

Use of Proceeds

Ponderosa's Applications anticipate allocation of the proceeds as follows:

<u>Item</u>	<u>Amount</u>	
	<u>A-91-10-023</u>	<u>A.93-05-053</u>
Central Office Construction	\$4,719,000	\$1,411,000
Outside Plant	2,446,000	596,000
Land/Building	353,000	217,000
Right-of-Way Procurement	51,000	-
Engineering	629,000	275,000
Class B RTB Stock	<u>409,900</u>	<u>124,950</u>
 Total Funds Required	 \$8,607,900	 \$2,623,950

CACD's Telecommunications Branch reviewed Ponderosa's proposed construction program as set forth in the Applications, examined the Loan Design Area Coverage Survey Report prepared for REA, and made a field inspection of Ponderosa's facilities. The

borrowings sought under A.91-10-023 are intended to meet Ponderosa's construction needs for its Fresno and Madera County exchanges during the five-year period ending December 31, 1995, based on an estimated average subscriber growth of 5.17% per year. The borrowings sought under A.93-05-053 are intended to meet Ponderosa's construction needs for its new Cima Exchange in San Bernardino County for the five year period ending December 31, 1996.

CACD reports that, as permitted by the Loan Contract and REA's procedures, Ponderosa has already completed and placed into service substantial portions of the facilities intended to be financed by these borrowings. According to CACD's REA sources, the bulk of the Cima Exchange facilities are now in place and providing service, and well over half of the new facilities in Fresno and Madera Counties have been completed. The remainder are primarily those intended to meet growth needs in the fourth and fifth years of the five-year planning period. When Commission authority is granted, REA will give final loan approvals and Ponderosa will be eligible to draw loan funds to reimburse its treasury for the internal funds it has used for interim construction.

Telecommunications Branch advises that Ponderosa's proposed uses of the proceeds raise no questions that should dissuade us from giving favorable consideration to the financing requested in the Applications, but suggests that the Commission reserve the opportunity to adjust Ponderosa's telephone plant in rate base should the forecasted growth level not be attained. We will not 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.

OIG's Investigation

On January 9, 1992, the United States Department of Agriculture's Office of the Inspector General (OIG) acted to seize a large volume of Ponderosa's financial records from its headquarters in O'Neals (Madera County). During the months that

followed, neither Ponderosa, its counsel, nor REA (despite being an agency under the Department of Agriculture) was able to obtain from OIG any firm indication of what the OIG investigation was seeking, or what Ponderosa's potential liability might be as a result. In light of the uncertainty, REA took the unusual step of including in Ponderosa's then-pending Telephone Loan Contract Amendment (Exhibit B attached to A.91-10-023) the following special wording:

SECTION 5(B). Notwithstanding anything contained in this agreement or the Loan Contract, the Bank shall be under no obligation to advance to the Borrower any portion of the Bank Loan Increase, unless and until the Administrator is satisfied that there is no adverse impact on loan security as a result of the investigation by the Office of the Inspector General of the U.S. Department of Agriculture, concerning the possible misuse of company funds by an employee of the Borrower.

On May 18, 1992, the Assistant Administrator of REA's Telephone Program wrote to advise CACD that REA was willing to release funds to Ponderosa when the Commission had granted the necessary approval. REA's subsequent Telephone Loan Contract Amendment (Exhibit A attached to A.93-05-053) did not include the protective wording cited above.

Customers have not been affected because Ponderosa's construction program proceeded using internal funds.

With the filing of A.93-05-053 and recent indications that this matter may not be resolved in the near future, CACD now recommends that we proceed with Ponderosa's loan authorizations.

We agree. Ponderosa's strong balance sheet and REA's willingness to advance funds lead us to believe that the immediate benefit to Ponderosa of infusing low cost capital, and the eventual benefit to its subscribers, outweigh the uncertainties.

Findings of Fact

1. Ponderosa has need for external funds in the amounts of \$8,607,900 and \$2,623,950 for the purposes set forth in the Applications.

2. Ponderosa and its subscribers will benefit from the low cost capital made available through the proposed financings.

3. Execution of the proposed Telephone Loan Contract Amendments, Restated Mortgage and Supplement to Restated Mortgage, Security Agreements, Financing Statement and Mortgage Notes would not be adverse to the Public interest.

4. Issuance of the proposed Mortgage Notes is for proper purposes.

5. Execution of a supplemental mortgage or mortgages and other security agreements as required by the Loan Contract, and execution 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. There is no known opposition to granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary

2. The money, property, or labor to be procured or paid for by the proposed borrowings is reasonably required for the purposes specified in the Applications, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or income.

3. The Applications should be granted to the extent set forth in the order which follows.

4. The following order should be made effective on the date hereof to enable Ponderosa to complete the loans without further delay.

5. The grant of authority requested by A.91-10-023 to issue a Mortgage Note or Notes should become effective when Ponderosa has paid \$9,608, the fee set by § 1904(b) of the PU Code.

6. The grant of authority requested by A.93-05-053 to issue a Mortgage Note or Notes should become effective when Ponderosa has paid \$3,624, the fee set by § 1904(b) of the PU Code.

O R D E R

IT IS ORDERED that:

1. The Ponderosa Telephone Company (Ponderosa) may, for the purposes set forth in Application (A.) 91-10-023, enter into a Telephone Loan Contract Amendment, Restated Mortgage, Security Agreement, and Financing Statement with the United States of America acting through the Rural Electrification Administration (REA) and the Rural Telephone Bank (Telephone Bank) under documents which shall be in substantially the same form as set forth in Exhibits B and C attached to A.91-10-023.

2. Ponderosa may, for the purposes set forth in A.93-05-053, enter into a Telephone Loan Contract Amendment, Supplement to Restated Mortgage, Security Agreement, and Financing Statement with the United States of America acting through REA and the Telephone Bank under documents which shall be in substantially the same form as set forth in Exhibits A and B attached to A.93-05-053.

3. Ponderosa may, for the purposes specified in A.91-10-023, issue a Mortgage Note or Notes in an aggregate principal amount not to exceed \$8,607,900 in substantially the same form as set forth in Exhibit D attached to A.91-10-023.

4. Ponderosa may, for the purposes specified in A.93-05-053, issue a Mortgage Note or Notes in an aggregate principal amount not to exceed \$2,623,950 in substantially the same form as set forth in Exhibit C attached to A.93-05-053.

5. Ponderosa may execute and deliver supplemental mortgages and other security instruments as are required by the terms of its 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 totals under the Loan Contract.

6. Ponderosa shall file with the Commission Advisory and Compliance Division within fifteen days after the documents have been executed, copies of the Telephone Loan Contract Amendment; Restated Mortgage and Supplement to Restated Mortgage, Security Agreement, and Financing Statement; Mortgage Notes; supplemental mortgages and other security instruments; and Loan Contract basis date or other extension agreements.

7. Ponderosa shall file the reports required by General Order 24.

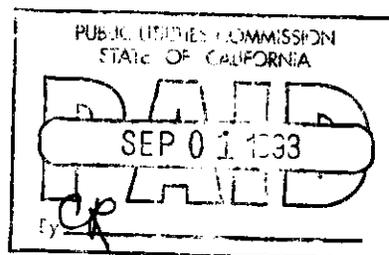
8. The authority granted by this order to issue a Mortgage Note or Notes as requested in A.91-10-023 shall become effective when Ponderosa pays \$9,608, the fee set by Public Utilities (PU) Code § 1904(b).

9. The authority granted by this order to issue a Mortgage Note or Notes as requested in A.93-05-053 shall become effective when Ponderosa pays \$3,624, the fee set by PU Code § 1904(b).

This order is effective today.

Dated SEP 1 1993, at San Francisco, California.

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



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