

CACD/RHG

Decision 94-03-035 March 9, 1994

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
DUCOR TELEPHONE COMPANY U-1007-C, to)
issue notes in an amount not to exceed) Application 93-11-052
\$4,485,000, and to execute a related) (Filed November 30, 1993)
agreement and supplemental mortgage and)
security instruments.)
_____)

O P I N I O N

Summary of Decision

This decision grants Ducor Telephone Company (Ducor) the authority requested in Application (A.) 93-11-052 (Application), with the exception of a conditional authorization for the funds allocated for the Kennedy Meadows Exchange.

Ducor requests authority, pursuant to Articles 5 and 6, Chapter 4, Part 1, Division 1 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 \$4,485,000.
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 December 20, 1993. No protests have been received.

Background

Ducor is a California corporation and operates as a local exchange telephone company providing service to portions of Tulare, Tehama and Kern Counties. The property owned by Ducor and devoted to telephone service is comprised of land, buildings, buried and underground lines, wire, cable, central office equipment and other pertinent equipment necessary for the rendition of telephone service.

Ducor has applied for a Certificate of Public Convenience and Necessity (CPCN) for an unserved area of Tulare County (the Kennedy Meadows Exchange). Ducor has also experienced additional demand for telephone service and for system improvements in its present territory. The proposed Kennedy Meadows Exchange and this demand have required the expansion and improvement of Ducor's facilities and the construction of additional facilities. Over the next five years, Ducor will require \$4,485,000 to pay for or refund debt for amounts used or to be used for additions and improvements to plant.

For the year ended June 30, 1993, Ducor reported it generated total operating revenues of \$2,629,724 and operating income of \$922,420, as shown as part of Exhibit E to the Application.

Also a part of Exhibit E is Ducor's Balance Sheet at June 30, 1993, which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Plant	\$3,286,317
Noncurrent Assets	79,436
Current Assets	<u>2,575,150</u>
Total Assets	\$5,940,903

<u>Liabilities and Equity</u>	<u>Amount</u>
Stockholders' Equity	\$3,680,615
Long Term Debt - REA and RTB	1,449,312
Other Liabilities & Deferred Credits	333,127
Current Liabilities	<u>477,849</u>
Total Liabilities & Equity	\$5,940,903

Kennedy Meadows Exchange

By A.94-01-011 dated January 10, 1994, Ducor requests a CPCN to establish the Kennedy Meadows Exchange to provide local exchange telephone service in an unserved area of Tulare County. Ducor states in A.94-01-011 that the facilities construction will be financed entirely through external financing from the REA and that this Application seeking Commission approval of the REA loan is presently pending. The projected construction costs, shown as Exhibit B to A.94-01-011 are summarized as follows:

Digital Switch	\$ 145,000
Central Office Switch Engineering	27,368
Subscriber carrier	37,500
Subscriber carrier engineering	7,078
Buried cable - subscriber	514,400
Buried Cable engineering	97,090
Land	10,000
Building	90,000
Building engineering	16,987
Microwave - trunk	955,760
Microwave engineering	<u>180,396</u>
Total	\$2,081,579

The proposed Kennedy Meadows Exchange project would consist of a host central office (CO) in Ducor, and a remote CO at the proposed Kennedy Meadows Exchange. All telecommunications traffic from the proposed exchange would be routed through the Ducor CO through a new digital microwave system. The Ducor CO is equipped with a Stromberg Carlson DCO-SE (1989) Generic 17.3 digital switch. A new remote digital switch would be installed at the proposed exchange remote CO. Digital microwave radio equipment would link the proposed exchange remote CO to the Ducor CO.

According to Ducor, the proposed microwave route would traverse the Sierra Nevada by use of three active radio frequency repeater sites. A special use permit would be obtained from the U.S. Forest Service for Tobias Peak and Sherman Peak sites. Private land would be purchased or leased for the Long Canyon repeater site and the proposed exchange CO and outside plant. Commercial power service is not available in the proposed Kennedy Meadows exchange area. Ducor proposes to install a solar power system with a back-up generator.

Mortgage Note

Ducor has previously made long-term borrowings from the REA and the RTB. Ducor proposes to enter into a Loan Contract with REA and RTB in substantially the same form as set forth in Exhibit B. The Loan Contract by its terms allows the REA and the RTB to withhold loan funds to be used for the proposed Kennedy Meadows Exchange unless and until the Commission has granted Ducor a CPCN for that area. Pursuant to the Loan Contract,

SECTION 5(A). Notwithstanding anything contained in this agreement or the Loan Contract, the Government shall be under no obligation to advance to the Borrower any portion of the Government Loan Increase, unless and until the Borrower, in addition to complying with all other conditions of the Loan Contract and this agreement which are precedent to the advance of loan funds, shall have delivered to the Administrator, in form and substance satisfactory to him, evidence that:

- (1) The Borrower has duly authorized, executed, recorded and filed a security instrument, in form and substance satisfactory to the Administrator; and
- (2) The Borrower has been issued a Certificate of Convenience and Necessity from the California Public Utilities Commission to serve the Kennedy Meadows exchange, in form and substance satisfactory to the Administrator.

The proposed loan will be secured by a Mortgage Agreement in substantially the same form as set forth in Exhibit C and Ducor will issue a Note to REA in substantially the form attached as

Exhibit D, to provide for the long term borrowing of a principal amount not to exceed \$4,485,000 in the aggregate.

Pursuant to the Loan Contract and the Note, money will be advanced to Ducor from time to time after the execution of the Note. Each advance under the Note will bear interest at the rate of 5% per annum. The Note will be payable monthly, in amounts pursuant to the schedules set forth in Exhibit D.

Interest on principal advanced pursuant to the Loan Contract and remaining unpaid shall be payable on the last day of each month of each year for a period ending on a date two years after execution of the Note. Thereafter, to and including a date thirty five years after the date of execution, Ducor shall make a payment on each of the monthly dates in each year at the rate of \$5.17 per \$1000 of the principal amount advanced pursuant to the Loan Contract and unpaid two years after the date of execution of the Note.

Interest and principal payment on principal advanced more than two years after the date of execution of the Note shall be made monthly beginning with the last day of the month following the month of each advance of principal. Each payment shall be (a) substantially equal to all subsequent monthly payments and (b) in an amount that will pay all principal and interest on the Note no later than the maturity date. The first payment on an advance made more than two years after the date of the Note shall be increased by the amount of interest accruing between the date of the advance and the first day of the month following the month of the advance. These payments shall be in addition to the payment made on the principal amount advance and unpaid two years after the date of execution of the Note.

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 from time to time such supplemental mortgages and other security instruments as may be required by the terms of its Loan Contract and to 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.

The Commission Advisory and Compliance Division (CACD) advises us that the execution of a supplemental mortgage, or mortgages, and other security instruments as is required by the Loan Contract would not be adverse to the public interest.

Our authorization for the REA and the RTB funds intended for the Kennedy Meadows Exchange will be conditioned upon the grant of a CPCN for that exchange. Unless and until that CPCN is granted, Ducor will be limited to borrowing an amount not exceeding \$2,566,614 to be used only in the other two exchanges.

Construction Budget

Below is a summary of Ducor's additions and improvements to plant, as shown in the Application:

<u>Ducor Exchange</u>	
Central Office Equipment	\$ 281,250
Electronic Equipment	37,250
Microwave Equipment	134,550
Outside Plant	1,038,300
Engineering - Preloan	17,500
Engineering - Postloan	<u>205,622</u>
Total	\$1,714,472
<u>Rancho Tehama Exchange</u>	
Central Office Equipment	\$ 225,000
Electronic Equipment	126,875
Outside Plant	394,590
Engineering - Preloan	9,000
Engineering - Postloan	<u>96,677</u>
Total	\$ 852,142
<u>Kennedy Meadows Exchange</u>	
Central Office Equipment	\$ 145,000
Electronic Equipment	37,500
Microwave Equipment	821,210
Outside Plant	514,400
Land & Building	100,000
Engineering - Preloan	23,500
Engineering - Postloan	<u>276,776</u>
Total	\$1,918,386
Total Funds Required	\$4,485,000

We note without concern that there are minor differences in the estimates for constructing the Kennedy Meadows Exchange as presented in the Application and A.94-01-011.

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.

Capital Ratios

Ducor's 1992 capital ratios, 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 requested transaction and changes in retained earnings:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$1,410,094	29.69%	\$5,609,495	58.91%
Shareholder Equity	<u>3,338,717</u>	<u>70.31%</u>	<u>3,913,321</u>	<u>41.09%</u>
Total	\$4,748,811	100.00%	\$9,522,816	100.00%

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

CACD has reviewed Ducor's financial statements, and the cash requirements forecast provided in Ducor's supplemental data to the Application and reports that Ducor'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, CACD recommends the Commission approve

these proposed borrowings. As Ducor notes in the Application,

REA has agreed to provide a subsidized loan to Applicant at an annual interest rate of five percent (5%). Such rate of interest is much lower than rates available from private and commercial lenders.

Because long term borrowings from REA represent a much lower cost of capital than either equity or other forms of debt, it is to Ducor's great advantage to avail itself of such funds whenever financing is needed. Under cost of service ratemaking, the benefits of Ducor's lower cost of capital will eventually flow through to its subscribers.

Findings of Fact

1. Ducor, a California corporation, operates as a public 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, Note, Mortgage Agreement, and Supplement, 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, are for proper purposes and would not be adverse to the public interest.
4. Ducor and its subscribers will benefit from the low cost capital made available through the proposed financings.
5. Ducor has applied for a CPCN to provide service in an unserved area of Tulare County designated as the Kennedy Meadows Exchange.
6. The authorization to borrow and use funds for the Kennedy Meadows Exchange should be conditioned upon the grant of a CPCN for that exchange. Unless and until that CPCN is granted, Ducor should be limited to borrowing an amount not exceeding \$2,566,614 to be used only for the Ducor and Rancho Tehama Exchanges.

7. The Commission does not by this decision determine that Ducor'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.

8. 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.

9. 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. Ducor should pay the fee determined in accordance with PU Code § 1904.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Ducor Telephone Company (Ducor) may, for the purposes set forth in Application (A.) 93-11-052 (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 B attached to the Application.

2. Ducor 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 C attached to the Application.

3. Ducor may issue a Mortgage Note (Note) in the aggregate principal amount not to exceed \$4,485,000 in substantially the same form as set forth in Exhibit D attached to the Application.

4. Ducor 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. The authorization to use funds for the Kennedy Meadows Exchange is conditioned upon the grant of a Certificate of Public Convenience and Necessity (CPCN) requested in A.94-01-011. Unless and until Ducor is granted a CPCN for its proposed Kennedy Meadows Exchange, Ducor shall draw from REA and RTB under this authorization an amount not exceeding \$2,566,614 to be used only in connection with providing service to its Ducor Exchange and Rancho Tehama Exchange customers.

6. Ducor shall maintain and within thirty days from request, provide the Commission Advisory and Compliance Division any or all of the following: Loan Contract, Mortgage Agreement, Note, Supplement, other security instruments, and Loan Contract basis date or other extension agreements.

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

8. The Application is granted as set forth above.

9. The authority granted by this order to issue the Note shall become effective when Ducor pays \$5,485, the fee set forth by Public Utilities Code § 1904. In all other respects this order is effective today.

Dated March 9, 1994, at San Francisco, California.

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
Commissioners



Receipt 31207

THE
GILGAMESH
TABLETS
FROM NIPPUR
1881-1883