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Decision 98-07-088 July 23, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SIERRA)
TELEPHONE COMPANY, INC. U-1016-C, for)
an Order authorizing it to issue notes in an amount)
not exceeding \$35,500,000, and to execute a)
related agreement and supplemental security)
instruments.)
_____)

Application 98-03-047
(Filed March 30, 1998)

OPINION

Summary of Decision

This decision grants Sierra Telephone Company, Inc. (Sierra Telephone) the authority requested in Application (A.) 98-03-047 (Application).

Sierra Telephone requests authority, pursuant to §§ 818 and 851 of the Public Utilities (PU) Code, for the following:

1. to enter into a Telephone Loan Contract Amendment (Loan Contract) with the Rural Utilities Service¹ (RUS) and the Rural Telephone Bank (Telephone Bank);
2. to issue notes in an amount not exceeding \$35,500,000; and
3. to execute and deliver the Mortgage Note and supplemental mortgages of Sierra Telephone's properties pursuant to the terms of the Loan Contract.

In accordance with PU Code 1701.1(b), a Scoping Memo indicating the issues and the time schedule was issued and filed on April 20, 1998 under an Assigned Examiner's Ruling.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of April 2, 1998. No protests have been received.

¹ Successor to the Rural Electrification Administration (REA).

(S)
Dean J. Evans
CPUC
Water Division
RM 3102

Background

Sierra Telephone is a California corporation and operates as a public utility telephone company under the jurisdiction of this Commission. Sierra Telephone engages in furnishing telephone services to portions of Madera and Mariposa Counties, California.

The property owned by Sierra Telephone and devoted to telephone services is comprised of pole lines, wire, cable, lands, easements, central office equipment, telephones, and other pertinent equipment necessary for the rendition of telephone service.

For the calendar year 1997, Sierra reported it generated total operating revenues of \$28,704,489 and net income of \$4,967,103 as shown in its Financial and Statistical Report for Telecommunications Borrowers attached to the Application as Exhibit C.

Sierra Telephone's Balance Sheet for the calendar year 1997 (audited) pursuant to the supplemental data to the Application is summarized below:

<u>Assets</u>	<u>Amount</u>
Current Assets	\$12,816,396
Investments and Deferred Charges	3,630,828
Net Plant	<u>50,532,441</u>
Total	\$66,979,665
<u>Liabilities and Equity</u>	<u>Amount</u>
Current Liabilities	\$ 9,057,566
Long-term Debt	10,852,055
Other Liabilities and Deferred Credits	6,857,654
Capital and Retained Earnings	<u>40,212,390</u>
Total	\$66,979,665

Description of Financing

Sierra Telephone has previously made long-term borrowings from the United States of America, acting through the RUS, and the Telephone Bank. Decision (D.) 92-08-041 in A.92-03-043 authorized Sierra Telephone to enter into a Telephone Loan Contract Amendment with the RUS and the Telephone Bank; to issue a Mortgage Note in the aggregate principal amount of

\$3,062,850; and to execute supplemental mortgages and other security instruments as required by the Telephone Loan Contract Amendment. The terms of this 1992 Telephone Loan Contract Amendment required Sierra Telephone to purchase \$145,850 of Class "B" stock of the Telephone Bank.

Sierra Telephone indicated in the Application that it has experienced and is now experiencing an increasing demand for higher grades and greater quantity of telephone services. This demand requires the expansion and improvement of Sierra Telephone's facilities, as presented on page 4 of the Application and summarized below under the Construction Budget Section.

Sierra Telephone proposes to issue a Mortgage Note to the RUS and the Telephone Bank in the principal amount not exceeding \$35,500,000 (which includes the purchase of shares of the Class "B" stock of the Telephone Bank). The proposed loan will be secured by previously executed mortgages and supplemental mortgages of substantially all of Sierra Telephone's property to the RUS and the Telephone Bank. To effect the transaction, Sierra Telephone will execute an amendment to the existing loan agreement between the RUS and the Telephone Bank. The terms of the Telephone Loan Contract Amendment, as mandated by federal regulations, require Sierra Telephone to purchase shares of Class "B" Stock of the Telephone Bank. As set forth on the Telephone Loan Contract Amendment and the Mortgage Note, money shall be advanced to Sierra Telephone from time to time after the execution of the Mortgage Note. Each advance under the Mortgage Note will bear interest at the various rates which shall be determined by terms set forth in the Mortgage Note. The Mortgage Note will be payable monthly in amounts to be determined.

There is no stated rate of interest for the RUS and Telephone Bank's subsidized loans to telephone companies. Instead, the applicable rate of interest for advances under the RUS and Telephone Bank loans is determined on the date of each advance and is essentially equal to the U.S. Government's cost of funds. The rates so determined are generally and consistently much lower than rates available from private and commercial lenders.

Construction Budget

A summary of Sierra Telephone's anticipated allocation of proceeds from the loan is as follows:

<u>Item</u>	<u>Amount</u>
Central Office Equipment	\$ 3,249,332
Electronic Equipment	2,013,300
Outside Plant	19,137,137
Land and Buildings	4,142,975
Removals	33,000
Pre-Loan Engineering	97,000
Post-Loan Engineering	4,714,998
Telephone Bank "B" Stock	<u>1,669,387</u>
Total	\$35,057,129

Sierra Telephone's estimated construction budget raises no questions that should dissuade us from giving favorable consideration to the financing requested in the Application. The proposed construction, extension and improvement of Sierra Telephone's facilities are necessary for Sierra Telephone to provide for the continuing improvement and growth of its telephone system so as to meet the rapidly increasing demands for telephone services it furnishes.

We will not, however, make a finding in this decision on the reasonableness of Sierra Telephone's construction budget.

Environmental Assessment

Pursuant to its supplemental information to the Application, Sierra Telephone states that to the extent that the funds would be used for the construction of new facilities, it would, as required, comply with any applicable environmental regulations for any capital improvement undertaken relative to this decision. The placement of underground or buried telecommunications cables does not normally require an Environmental Impact Statement or an Environmental Assessment in accordance with the regulations of the RUS for compliance with the National Environmental Policy Act. However, reviews by environmental agencies are appropriate to ensure compliance with all local, state, and Federal requirements. Sierra Telephone has sent out inquiries to the Environmental Protection Agency, the Office of Historic Preservation, U.S. Forest Service, U.S Dept. of Transportation, the Federal Emergency Management Agency, Natural Resources Conservation, Flight Standards Division,

U.S. Army Corps of Engineers, the U.S. Fish & Wildlife Service, the California Department of Transportation, California Coastal Commission, California Department of Fish & Game, and the Air Resources Board for any potential environmental, historical or cultural impacts that may result from the construction of additional telecommunications facilities.

Capital Ratios

Sierra Telephone's capital ratios as of December 31, 1997, submitted as supplemental information to the Application, are presented below as recorded and adjusted to give pro forma effect to the proposed financing:

	<u>Recorded</u>		<u>Pro-Forma</u>	
	Amount	Percentage	Amount	Percentage
Long-Term Debt	\$10,852,055	20.04%	\$44,239,193 ²	50.53%
Short-Term Debt	3,100,000	5.72%	3,100,000	3.54%
Equity	<u>40,212,390</u>	<u>74.24%</u>	<u>40,212,390</u>	<u>45.93%</u>
Total	\$54,164,445	100.00%	\$87,551,583	100.00%

Under our New Regulatory Framework for local exchange companies, capital structure is not a factor in setting rates. We make no finding in this decision of the reasonableness of Sierra Telephone's projected capital ratios.

² The estimated net proceeds from the loan is \$33,400,000.

Cash Requirements Forecast

Sierra Telephone's estimated cash requirements forecasts for 1998 through 2000 are summarized as follows:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Funds Needed for Construction	\$10,000,000	\$11,500,000	\$ 9,000,000
Maturities of Long-Term Debt	800,000	800,000	800,000
Maturities of Short-Term Debt	<u>6,000,000</u>	<u>0</u>	<u>0</u>
Total	\$16,800,000	\$12,300,000	\$ 9,800,000
Less: Estimated Cash Available from Internal Sources	<u>5,800,000</u>	<u>6,700,000</u>	<u>7,500,000</u>
Additional New Funds Required from Outside Sources	\$11,000,000	\$ 5,600,000	\$ 2,300,000

Sierra Telephone's forecasted cash requirements indicate that it would require additional funds from external sources amounting to \$18,900,000 for 1998, 1999, and 2000.

Use of Proceeds

Sierra Telephone states in the Application that the proceeds from the loan will be used to pay for additions and improvements to plant and the purchase of shares of Class "B" stock of the Telephone Bank.

We note that the required purchase of Telephone Bank's Class "B" stock amounting to \$1,669,387 or 4.7% of principal amount parallels the California Department of Water Resources' required 10% reserve fund for loans issued under the Safe Drinking Water Bond Act.

The proposed use of proceeds is for proper purposes and is not adverse to the public interest. Sierra Telephone is placed on notice that the proceeds from the loan cannot be charged to operating expenses or income.

In Resolution (Res.) ALJ#176-2990 dated April 9, 1998, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ#176-2990.

Findings of Fact

1. Sierra Telephone, a California corporation, is a telephone utility subject to the jurisdiction of this Commission.
2. Sierra Telephone has need for external funds for the purposes set forth in the Application.
3. The proposed loan is for proper purposes.
4. The money, property, or labor to be procured or paid for by the proposed loan is reasonably required for the purposes specified in the Application.
5. The RUS and Telephone Bank loan provides needed capital for facilities improvements and is a prudent means of acquiring an estimated \$35,500,000.
6. Sierra Telephone is cognizant of its responsibility to abide by and comply with any applicable environmental regulations for any capital improvement undertaken relative to this decision.
7. The Commission does not by this decision determine that the capital structure and cash requirements forecast presented herein are necessary or reasonable for ratemaking purposes.
8. Notice of the filing of the Application appeared on the Commission's Daily Calendar of April 2, 1998, and no protests have been received. There is no known opposition to the Application and 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 loan is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. Proceeds from the loan may not be charged to operating expense or income.
4. This Application for financing approval does not require environmental review, but construction with the proceeds of this financing may.
5. Sierra Telephone will pay the fee in accordance with PU Code § 1904(b).
6. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. Sierra Telephone Company, Inc. (Sierra Telephone) may enter into a Telephone Loan Contract Amendment with the Rural Utilities Service (RUS) and the Rural Telephone Bank (Telephone Bank) for the borrowing of a total sum not exceeding \$35,500,000 and may execute and deliver the Mortgage Note and supplemental mortgages of Sierra Telephone's properties on substantially the same terms and conditions as set forth in Exhibit B to Application (A.)

98-03-047.

2. Sierra Telephone shall file with the Telecommunications Division copies of the Telephone Loan Contract Amendment, Mortgage and Security Agreement, Mortgage Note, supplemental mortgages, other security instruments, and environmental compliance not later than 15 days after the documents have been executed.

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

4. The authority granted by this order shall become effective when Sierra Telephone pays \$23,750, the fee set forth in Public Utilities Code § 1904(b).

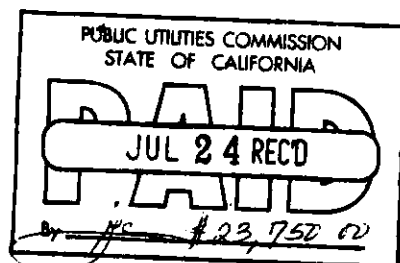
5. The issue presented in A.98-03-047 are resolved.

6. A.98-03-047 is closed.

This order is effective today.

Dated July 23, 1998, at San Francisco, California.

RICHARD A. BILAS
President
J. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners



CSR # 40087