

TELCO/RHG

Decision 98-09-069 September 17, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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 \$20,445,000, and)
to execute a related agreement and supplemental security)
instruments.)
_____)

Application 98-06-041
(Filed June 16, 1998)

OPINION

Summary of Decision

This decision grants The Ponderosa Telephone Co. (Ponderosa) the authority requested in Application (A.) 98-06-041 (Application).

Ponderosa 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 following U.S. Government entities¹ - Rural Utilities Service² (RUS), the Rural Telephone Bank (RTB), and the Federal Finance Bank (FFB³).
2. to issue notes in an amount not exceeding \$20,445,000 to anyone or all of the U.S. Government entities listed under number 1.
3. to execute and deliver Mortgage Notes and supplemental mortgages of Ponderosa's properties pursuant to the terms of the Loan Contract.

¹ Agencies involved in the U.S. Department of Agriculture (USDA) program for financing rural utilities.

² Formerly the Rural Electrification Administration (REA).

³ Organized under the Federal Financing Bank Act of 1973.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of June 25, 1998. No protests have been received.

Background

Ponderosa is a California corporation and operates as a public utility telephone company under the jurisdiction of this Commission. Ponderosa engages in furnishing telephone services to portions of Fresno, Madera and San Bernardino Counties, California.

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

For the calendar year 1997, Ponderosa reported it generated net operating revenues of \$17,897,810 and net income of \$2,941,016 as shown in its Financial and Statistical Report for Telecommunications Borrowers attached to the Application as Exhibit B.

Ponderosa's Balance Sheet for the calendar year 1997 is summarized below:

<u>Assets</u>	<u>Amount</u>
Current Assets	\$21,433,677
Investments and Deferred Charges	24,408,613
Net Plant	<u>26,285,171</u>
 Total	 \$72,127,461
 <u>Liabilities and Equity</u>	 <u>Amount</u>
Current Liabilities	\$ 3,278,822
Long-term Debt	21,876,903
Other Liabilities and Deferred Credits	2,497,801
Capital and Retained Earnings	<u>44,473,935</u>
 Total	 \$72,127,461

Description of Financing

Pursuant to the Application and supplemental information thereof, Ponderosa has previously made long-term borrowings from the United States of America, acting through RUS, RTB, and FFB. All of Ponderosa's USDA related loans commencing over 35 years ago are parts of an ongoing single loan contract (as amended from time to time) as contrasted to separate stand-alone borrowings.

Decision (D.) 93-09-047 in A.93-05-053 authorized Ponderosa to enter into a Telephone Loan Contract Amendment with the RUS and RTB; to issue a Mortgage Note in the aggregate principal amount of \$2,623,950; and to execute supplemental mortgages and other security instruments as required by the Telephone Loan Contract Amendment. The terms of this 1993 Telephone Loan Contract Amendment required Ponderosa to purchase \$124,950 of Class "B" stock of RTB.

D.84806 dated June 12, 1975, granted Ponderosa authority to borrow \$4,490,000 from FFB with a REA guarantee. In this transaction, Ponderosa's obligations to FFB was guaranteed by REA, and Ponderosa hypothecated its properties to REA and RTB to provide security to REA, which will purchase the loan from FFB in the event of Ponderosa's default. To secure the guarantee, Ponderosa further mortgaged (by Supplement to Supplemental Mortgage and Security Agreement) its telephone system to REA and RTB.

Ponderosa 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 Ponderosa's facilities, as presented on page 3 of the Application and summarized below under the Construction Budget Section.

Ponderosa proposes to issue a Mortgage Note to one or more U.S. Government entities involved in the USDA program in the principal amount not exceeding \$20,445,000. The proposed loan will be secured by previously executed mortgages and supplemental mortgages of substantially all of Ponderosa's property. To effect the transaction, Ponderosa will execute an amendment to the existing loan agreement and money shall be advanced to Ponderosa 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 the terms set forth in the Mortgage

Note. The Mortgage Note will be payable monthly in amounts to be determined. The RUS, RTB, and FFB are lenders under a single loan and a single mortgage.

There is no stated rate of interest for the RUS, RTB or FFB subsidized loans to telephone companies. Instead, the applicable rate of interest for advances 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.

Ponderosa indicated in its supplemental information to the Application dated August 14, 1998, that it may at this time have a window of opportunity to enter into a FFB loan. FFB's funds are money borrowed from the public with the U.S. Government's guarantee. This may be less costly than a RUS or RTB loan considering the interest rate and the cost of capital involved, for example, in the mandatory 5% RTB stock purchase.

Construction Budget

A summary of Ponderosa's estimated construction budget (excluding the purchase of RTB's "B" Stock) is as follows:

<u>Item</u>	<u>Amount</u>
Central Office Equipment	\$ 4,543,000
Electronic Equipment	3,583,000
Outside Plant	8,799,000
Engineering	<u>2,499,000</u>
Total	\$19,424,000

Ponderosa'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 Ponderosa's facilities are necessary for Ponderosa 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 Ponderosa's construction budget.

Environmental Assessment

Pursuant to its supplemental information to the Application, Ponderosa 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. On June 11, 1998, Ponderosa's Borrower's Environmental Report was approved by USDA, with instructions that Ponderosa complies, as applicable, with other government agencies' (the Sierra or the Mojave Forest Service, the Sierra or the Mojave National Park Service, the Bureau of Land Management, the Bureau of Indian Affairs, and the State Historic Preservation Officer) environmental requirements prior to construction.

Capital Ratios

Ponderosa'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	\$21,876,903	32.6%	\$42,321,903	48.3%
Short-Term Debt	835,000	1.2%	835,000	1.0%
Equity	<u>44,473,935</u>	<u>66.2%</u>	<u>44,473,935</u>	<u>50.7%</u>
Total	\$67,185,838	100.0%	\$87,630,838	100.0%

Capital structures are normally subject to review in cost of capital or general rate case 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

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

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Funds Required For Construction:			
General Support	\$ 847,515	\$ 295,750	\$ 234,750
Central Office Equipment	1,215,878	593,044	1,667,102
Electronic Equipment	1,182,957	686,957	1,112,174
Outside Plant	3,728,456	5,020,262	3,319,665
Engineering	919,092	945,038	914,840
Long-Term Debt Retired	<u>835,000</u>	<u>850,000</u>	<u>900,000</u>
Total	\$8,728,898	\$8,391,051	\$8,148,531
Less: Estimated Cash Available from Internal Sources	<u>5,191,081</u>	<u>5,277,193</u>	<u>5,483,193</u>
Additional Funds Required from External Sources	\$3,537,817	\$3,113,858	\$2,665,338

Ponderosa's forecasted cash requirements indicate that it would require funds from external sources amounting to approximately \$9,317,000 for 1998, 1999, and 2000.

We note herein that pursuant to Ponderosa's supplemental information to the Application, the difference between the amount estimated for central office equipment and electronic equipment (listed under the construction budget shown on page 4 of this decision) and the corresponding figures listed above is due to:

1. Portions of the construction and equipment purchases for which the borrowed funds will be used are not included above and projected after the year 2000.
2. The cash available from internal sources will be applied in accordance with prudent and properly authorized business practices. Ponderosa may use such funds for a variety of corporate purposes, including operating reserves, emergency expenditures, purchases of additional equipment outside the proposed borrowing plan and investment in unregulated activities.

Use of Proceeds

Ponderosa 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 (if the loan is procured from RTB).

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

In Resolution (Res.) ALJ176-2996 dated July 2, 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.#ALJ176-2996.

We will grant Ponderosa's request to borrow from one or more U.S. Government entities involved in the USDA program for financing rural utilities. Because these sources 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.

Findings of Fact

1. Ponderosa, a California corporation, is a telephone utility subject to the jurisdiction of this Commission.
2. Ponderosa 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. Ponderosa's request to borrow from one or more U.S. Government entities involved in the USDA program for financing rural utilities (as shown in its supplemental information to the Application) is for proper purposes and would provide Ponderosa a broader choice in its financing requirements.

6. The RUS, RTB, and FFB loans will provide Ponderosa's needed capital for facilities improvements and is a prudent means of acquiring an estimated \$20,445,000.

7. Ponderosa is cognizant of its responsibility to abide by and comply with any applicable environmental regulations for any capital improvement undertaken relative to this decision.

8. 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.

9. Execution of the proposed Loan Contract, Restated Mortgage and Supplement to Restated Mortgage, Security Agreements, Financing Statement and Mortgage Notes would not be adverse to the public interest.

10. Notice of the filing of the Application appeared on the Commission's Daily Calendar of June 25, 1998, and no protests or requests for rehearing 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. Ponderosa 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. The Ponderosa Telephone Co. (Ponderosa) may enter into a Telephone Loan Contract Amendment with the Rural Utilities Service (RUS), the Rural Telephone Bank (RTB), and the Federal Finance Bank (FFB) for the borrowing of a total sum not exceeding \$20,445,000 and may execute and deliver Mortgage Notes and supplemental mortgages of Ponderosa's properties on substantially the same terms and conditions as set forth in Application (A.) 98-06-041 (Application) and supplemental information to the Application.

2. Ponderosa 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.

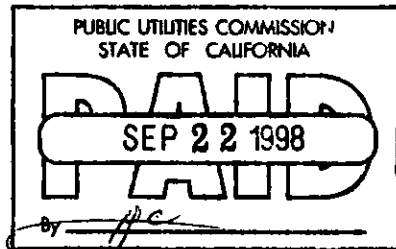
3. On or before the 25th day of each month, Ponderosa shall file the reports required by General Order Series 24.

4. The authority granted by this order shall become effective when Ponderosa pays \$16,223, the fee set forth in Public Utilities Code § 1904(b).

5. A.98-06-041 is closed.

This order is effective today.

Dated September 17, 1998, at San Francisco, California.



\$ 16,223.00
CSR # 40138

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