

Decision \_\_\_\_\_

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of VOLCANO TELEPHONE COMPANY (U 1019 C) pursuant to Public Utilities Code Sections 816 through 830 for authority to issue a promissory note in the amount of \$15,622,000.

Application 06-10-030  
(Filed October 25, 2006)

**OPINION AUTHORIZING THE ISSUANCE  
OF A PROMISSORY NOTE****I. Summary**

This opinion grants Volcano Telephone Company (Volcano) the authority to issue a \$15.622 million long-term promissory note to the United States of America (Government), acting through the Administration of the Rural Telephone Bank (RTB) and the Rural Utilities Service (RUS).

**II. Background**

Volcano is a public utility corporation providing local exchange telephone service to portions of Alpine, Amador, Calaveras, and El Dorado Counties in California. Its property consists principally of telephone facilities, including central office equipment, aerial and buried cable, land and buildings. Volcano's principal place of business is at 20,000 Highway 88, Pine Grove, CA.

**III. Request**

Volcano seeks authorization to issue a long-term promissory note in the amount of \$15.622 million to the Government. The promissory note is to be secured by the continuing mortgage of Volcano's properties. The promissory note is for a 21 year term and is to be repaid in amortizing monthly installment

payments. The interest rate is to be determined by reference to the Rural Electrification Act of 1936 and implementing regulations, which rate will essentially be the Government's cost of money.

#### **IV. Discussion**

Volcano currently has \$19.235 million of RTB and RUS debt encumbered by its properties, which were previously authorized by the Commission as detailed in Exhibit C of its application. Of that amount, RUS has approved Volcano's request to refinance \$15.622 million, the original stated amount of indebtedness remaining at September 13, 2006. Volcano does not intend to use the proceeds for any purpose other than to refinance its outstanding RTB and RUS debt.

This refinancing of RTB and RUS outstanding debt is expected to provide benefit to Volcano and to its ratepayers through reduced interest payments. This is because the amounts to be refinanced bearing interest rates from 5.25% to 6.576% are expected to be reduced to a range of 4.98% to 5.02%. The interest rate reduction is projected to save Volcano and its ratepayers between \$175,000 and \$200,000 per year.

##### **A. Approval**

Volcano's long-term promissory note request is subject to §§ 816, *et seq.* of the Public Utilities Code.<sup>1</sup> The Commission has broad discretion under §§ 816, *et seq.* to determine if a utility should be authorized to issue debt. Where necessary and appropriate, the Commission may attach conditions to the issuance of debt to protect and promote the public interest.

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<sup>1</sup> All statutory references are to the Public Utilities Code unless otherwise stated.

## 1. Issuance of Securities

Volcano has substantiated that its \$15.622 million long term promissory note is appropriate to refinance its currently authorized and issued debt which will, in turn, lower its carrying cost of debt and reduce its annual interest payments. This purpose is authorized by § 817(g). Therefore, we will grant Volcano authority under § 816, *et seq.* to issue its requested long-term promissory note for the aforementioned purpose, as detailed in the application.

Consistent with § 824, Volcano shall maintain records to identify the specific long-term promissory note issued pursuant to this Opinion, and demonstrate that proceeds from such promissory note have been used only for the purposes authorized by today's Opinion.

However, we make no finding regarding the reasonableness of the rates, terms, and conditions of debt issued by Volcano. The reasonableness of the resultant interest rate and cost of money to Volcano is subject to scrutiny in Volcano's cost of capital or general rate proceedings. In that regard, Volcano should provide testimony in such a proceeding that substantiates the reasonableness of its interest rates applicable to the financing approved in this order.

## 2. Reporting Requirement

General Order (GO) 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (i) the amount of debt and stock issued by the utility during the previous month; (ii) the total amount of debt and stock outstanding at the end of the prior month; (iii) the purposes for which the utility expended the proceeds realized from the issuance of debt and stock during the prior month; and (iv) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and

disbursements of money obtained from the issuance of debt and stock. Volcano shall comply with GO 24-B.

#### **V. Fee**

Whenever the Commission authorizes a utility to issue debt and stock, the Commission is required to charge and collect a fee pursuant to §§ 1904(b) and 1904.1. A fee is not applicable on any such issues used to guarantee, take over, refund, discharge, or retire any stock, bond, note, or other evidence of indebtedness on which a fee has theretofore been paid to the Commission. (§ 1904.1.)

Volcano is exempt from the payment of a fee for the issuance of its requested long-term promissory note because it intends to use the proceeds from that promissory note to retire debt previously authorized and issued, of which a fee was previously assessed. Proceeds from the requested long-term promissory note should not be used for any purpose other than to refinance existing debt.

#### **VI. California Environmental Quality Act**

Under the California Environmental Quality Act (CEQA) and Rule 17.1 of the Commission's Rules of Practice and Procedure (Rules), we must consider the environmental consequences of projects that are subject to our discretionary approval.<sup>2</sup> Thus, we must consider whether approval of this application will alter an approved project, result in new projects or change operations in ways that have an environmental impact.

On the facts, here, however, Volcano has not asked for approval of any specific projects, nor is this financing Order authorizing any specific capital expenditures or construction projects. It is refinancing previously approved and

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<sup>2</sup> Pub. Resources Code Section 21080.

issued debt. Therefore, it can be seen with certainty that the requested authority to issue long-term debt will not have any significant adverse effect on the environment.

### **VII. Category and Need for Hearings**

Volcano requested that this matter be categorized as ratesetting. By Resolution ALJ 176-3182, dated November 9, 2006, the Commission preliminarily determined that this was a ratesetting proceeding and that a hearing would not be necessary.

Notice of the application appeared in the Commission's Daily Calendar of October 27, 2006. No protests have been received. Given this status a public hearing is not necessary and it is not necessary to alter the preliminary determinations made in Resolution ALJ 176-3182.

### **VIII. Comments on Proposed Decision**

This is an uncontested matter, in which the decision grants the relief requested. Accordingly, pursuant to § 311(g)(2) of the Public Utilities Code and Rule 14.6 (c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is being waived.

### **IX. Assignment of Proceeding**

John A. Bohn is the assigned Commissioner and Michael Galvin is the assigned ALJ in this proceeding.

### **Findings of Fact**

1. Volcano seeks authority to issue a \$15.622 million long-term promissory note to refinance its currently outstanding debt.
2. Issuance of the requested long-term promissory note is to save Volcano and its ratepayers from \$175,000 to \$200,000 in annual interest payments.

3. GO 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (i) the amount of debt and stock issued by the utility during the previous month; (ii) the total amount of debt and stock outstanding at the end of the prior month; (iii) the purposes for which the utility expended the proceeds realized from the issuance of debt and stock during the prior month; and (iv) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt and stock.

4. A fee for issuing long-term debt is not applicable on any such issues used to pay off existing long-term debt on which a fee has previously been paid to the Commission.

5. A.06-10-030 does not propose, and today's Opinion does not authorize, any specific new construction or changes in use of existing assets and facilities.

6. The reasonableness of any resulting interest rate and cost of money arising from debt capital is normally subject to review in cost of capital or general rate case proceedings.

7. Notice of A.06-10-030 appeared in the Commission's Daily Calendar of October 27, 2006.

8. Resolution ALJ 176-3182 issued on November 9, 2006, the Commission preliminarily determined that this proceeding should be categorized as ratesetting and that hearings would not be necessary.

### **Conclusions of Law**

1. This is a ratesetting proceeding.
2. There is no need for hearings.
3. CEQA is not applicable in this instance.
4. The application should be granted as requested.

5. Volcano should use the proceeds from the issuance of its long-term promissory note to only refinance its currently authorized and issued outstanding debt.

6. Volcano should report its financing activities pursuant to GO 24-B.

7. The following order should be effective immediately so that Volcano may issue as soon as possible the long-term promissory note authorized herein.

## **O R D E R**

### **IT IS ORDERED** that:

1. Volcano Telephone Company (Volcano) is authorized to issue a \$15.622 million long-term promissory note to the United States Government for the purpose of refinancing its current long-term debt, as detailed in the application and body of this order.

2. Volcano shall deliver a copy of the executed promissory note in substantially the same form and content as set forth in Exhibit E to the application to the Water Division within 15 days of executing the promissory note.

3. On or before the 25<sup>th</sup> day of each month, Volcano shall report its financing activities being authorized by this order pursuant to General Order 24-B, to the Commission's Utility Audit, Finance and Compliance Branch.

4. This financing order does not authorize any capital expenditures or construction projects.

5. Application 06-10-030 is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.