

Decision No. 52675

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of ROSEVILLE TELEPHONE COMPANY, a California corporation, for authority to execute Promissory Notes payable at periods of more than twelve months after the date of execution and to mortgage real and personal property.

Application
No. 37746

O P I N I O N

Roseville Telephone Company has filed this application for authorization to execute a supplemental mortgage and to issue \$200,000 of notes.

Under authority granted by the Commission applicant executed a mortgage, dated January 23, 1952, and an amended mortgage, dated March 19, 1955, covering its real and personal properties, and pursuant to the terms of said indentures issued to Pacific Mutual Life Insurance Company its promissory notes in the original aggregate amount of \$450,000, of which \$426,000 remain outstanding. These outstanding notes consist of \$176,000 of 4-3/4% notes, due October 1, 1971, and \$250,000 of 4-1/4% notes due March 1, 1975.

Applicant now desires to increase its borrowings from Pacific Mutual Life Insurance Company to \$626,000 through the issue of new notes amounting in the aggregate to \$200,000, said notes to be payable March 1, 1976, with interest at the rate of 4-1/4% per annum. The company has entered, or is about to enter, into a loan agreement with the insurance company whereby the insurance company

will advance said sum of \$200,000 at any time, or from time to time, prior to June 1, 1957, and the company will pay to the lender, as a stand-by fee, 1% per annum of the unused portion of the loan agreement.

The purpose of the additional financing is to provide applicant with funds to meet, in part, the cost of its construction program now under way. It appears that applicant is faced with demands for new services and for improvements of existing services, and it estimates its capital requirements at \$345,990, segregated as follows:

| | |
|---|---------------------|
| Remodel adjoining corner building for new business office | \$ 30,000.00 |
| Cable being delivered presently | 35,000.00 |
| 200 lines & 400 terminals on order for Roseville office | 32,000.00 |
| Purchase property for new C.D.O. in Citrus Heights | 3,500.00 |
| New central dial office to be built in Citrus Heights plus dial equipment now on order & scheduled for delivery in 1957 | 150,000.00 |
| Two position test board for present dial office | 8,000.00 |
| One position information board for operators | 4,000.00 |
| Purchase 10 public pay booths to be installed 1956 | 3,590.00 |
| Purchase 15 public pay phones | 2,400.00 |
| Purchase 1,000 new phones | 27,000.00 |
| Private branch exchanges | 10,000.00 |
| Build outside plant to Folsom Dam (now being served by Pacific Telephone & Telegraph Co.) | 30,000.00 |
| Addition to present garage building | 3,000.00 |
| Building on new pole yard | 7,500.00 |
| | <u>7,500.00</u> |
| Total | <u>\$345,990.00</u> |

The company's system is one of full dial operation serving Roseville and adjoining areas in Placer and Sacramento Counties. In 1953 the Commission reviewed its service and operations and authorized changes in its rate schedules.^{1/} Subsequently the Commission

^{1/}
By Decision No. 49047, dated September 1, 1953, the Commission fixed rates designed to produce net revenues of \$45,000 and to yield a rate of 6.25% on a rate base of \$720,422.

passed upon applications filed by the company to obtain funds to finance itself. A review of applicant's financial statements points up the growth it has experienced, as indicated in the following statement:

| | <u>Telephone Plant</u> | <u>Operating Revenues</u> | <u>Available For Fixed Charges</u> | <u>Telephones In Service</u> |
|------|----------------------------|-------------------------------|--|----------------------------------|
| 1951 | \$278,358 | \$159,693 | \$24,015 | 2,851 |
| 1952 | 501,374 | 175,539 | 25,375 | 3,479 |
| 1953 | 589,469 | 210,391 | 30,990 | 3,777 |
| 1954 | 712,347 | 283,996 | 56,059 | 4,144 |
| 1955 | 940,175 | 335,433 | 55,591 | (1) |

(1) Not shown in filed statement.

In addition to the investment in telephone plant the company reports its net investment in current accounts at the close of 1955 at \$47,317.

It appears that the company has met its capital costs not only through borrowings from the insurance company, but also through the issue of common stock and the use of retained earnings. Its capital ratios as set forth in its balance sheet of December 31, 1955, are as follows:

| | | | |
|----------------------|---------------|------------------|-------------|
| Long-term debt | | \$426,000 | 43% |
| Equity capital - | | | |
| Common stock | \$500,000 | | |
| Discount and expense | (8,503) | | |
| Surplus | <u>66,925</u> | | |
| Total equity capital | | <u>558,422</u> | <u>57</u> |
| Total | | <u>\$984,422</u> | <u>100%</u> |

In 1955 applicant's fixed charges aggregated \$14,963. With net earnings of \$55,591 available to meet such charges, it appears that applicant earned its interest requirements approximately four times. The additional interest on the notes now to be issued will amount, at the outset, to \$8,500.

From a review of the proceeding it appears to us that applicant will have need for additional funds from external sources if it is to proceed with its construction work, that the issue of the notes now proposed will be made under reasonable terms and that the company's earnings should be ample to service the present and proposed indebtedness. In our opinion the money, property or labor to be procured or paid for through the issue of said \$200,000 of notes is reasonably required by applicant for the purposes specified herein, and the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. Accordingly, we will enter our order granting the application.

The approval herein indicated is for the issue and sale of securities only and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

O R D E R

The Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary and that the application should be granted, therefore,

IT IS HEREBY ORDERED as follows:

1. Roseville Telephone Company, on and after the effective date hereof and on or before June 1, 1957, may execute a supplemental mortgage and a loan agreement in, or substantially in, the same form as those filed in this proceeding and may issue and deliver to Pacific Mutual Life Insurance Company its promissory notes in the aggregate principal amount of not exceeding \$200,000, pursuant to the terms of

said loan agreement and supplemental mortgage, for the purpose of financing in part the construction expenditures referred to in this proceeding.

2. Roseville Telephone Company shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

3. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$200.

Dated at San Francisco, California, this 28th day of February, 1956.

[Signature]
President

Justin J. Adams

Ralph Lutz

R. Hardy

Commissioners

