

ORIGINAL

Decision No. 54255

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. 38608

O P I N I O N

This is an application for an order of the Commission authorizing Roseville Telephone Company to execute a second supplemental mortgage and a loan agreement and to issue \$300,000 of notes.

Under authority granted by the Commission, applicant executed a mortgage, dated January 23, 1952, an amended mortgage dated March 19, 1955, and a supplemental mortgage dated March 1, 1956, 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 \$650,000, of which \$620,000 remain outstanding. These outstanding notes consist of \$170,000 of 4-3/4% notes, due October 1, 1971, \$250,000 of 4-1/4% notes, due March 1, 1975, and \$200,000 of 4-1/4% notes, due March 1, 1976.

Applicant now desires to increase its borrowings from Pacific Mutual Life Insurance Company to \$920,000 through the issue of new notes amounting in the aggregate to \$300,000, said notes to

be payable January 1, 1982, with interest at the rate of 4-3/4% 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 \$300,000 at any time, or from time to time, prior to March 31, 1958, and the company will pay to the lender, as a standby fee, one per cent of the unused portion of the loan commitment.

The purpose of the additional financing is to provide applicant with funds to meet, in part, the cost of plant additions, improvements and betterments and the installation of additional dial equipment. The proposed additions to applicant's plant and the estimated cost thereof are reported to be as follows:

New line truck	\$ 14,700
2,000 new telephones	56,000
10 public pay booths	3,490
10 public pay stations (phones)	1,600
Dial equipment for Roseville office	9,380
Two-position test board for Roseville office	7,555
New business office now under construction, balance due	20,000
Office equipment and furniture for new business office	10,000
New central dial office in Citrus Heights now under construction	50,000
Cables for central dial office	150,000
Dial equipment for central dial office	<u>151,335</u>
Total	<u><u>\$474,060</u></u>

The company's system is a dial operation serving Roseville and adjoining areas in Placer and Sacramento Counties. It has experienced a substantial growth in plant investment, revenues and number of telephones served, as indicated in the following statement.

<u>Year</u>	<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	928,890	335,433	54,950	4,921
1956 (1)	1,072,819	317,380	72,811	(2)

- (1) To September 30, 1956  
(2) Not shown in filed statements

In addition to the investment in telephone plant the company reports a net investment in current assets of \$92,320, thus bringing its net investment in total assets to \$1,165,139 as of September 30, 1956. It appears that the company has financed this net investment in total assets through borrowings from an insurance company, through the issue of common stock and the use of retained earnings. Its capital ratios, based on detail set forth in its September 30, 1956 balance sheet, are as follows:

Long-term debt		\$ 570,000	48.9%
Equity capital-			
Common stock	\$500,000		
Discount and expense	(11,388)		
Surplus	<u>106,527</u>		
Total equity capital		<u>595,139</u>	<u>51.1</u>
Total		<u>\$1,165,139</u>	<u>100.0%</u>

If consideration is given to the issue after September 30, 1956, of the last \$50,000 of the 4-1/4% notes due March 1, 1976, the capital ratios on a pro forma basis would be 51% long-term debt and 49% equity capital. If, in addition, consideration is given to the issue of the \$300,000 of notes proposed in this application, the capital ratios on a pro forma basis would be 61% long-term debt and 39% equity capital.

It appears that applicant has met its recent capital requirements largely through the issue of long-term debt and that the proposed issue of notes will cause its capital ratios to become somewhat unbalanced. The insurance company that has provided applicant with its debt capital is aware of this condition and even though the mortgage agreement securing the notes provides that the ratio of funded debt to net book value of applicant's investment in properties should not exceed 50%, it is willing to loan to applicant the additional funds as proposed in this application.

Interest on the \$620,000 of long-term debt outstanding totals \$27,200 per annum. If the \$300,000 of new debt financing herein proposed is authorized, the fixed charges will increase to \$41,450 per annum. To meet its fixed charges applicant reports \$72,811 of net operating revenue for the nine months ended September 30, 1956, which would indicate that on an annual basis approximately \$97,000 of revenue will be available to meet fixed charges. This amount would provide an interest coverage of at least two times on both the debt currently outstanding as well as that proposed to be issued without giving consideration to additional revenues which may result from the further expansion of applicant's plant.

From a review of the application, it appears that applicant has need for additional funds, that the insurance company is willing to make such funds available on reasonable terms, and that the earnings of applicant appear sufficient to meet the fixed charges the additional debt financing will impose. The Commission does, however, place applicant on notice that its future capital

requirements should be met, to the extent possible, through the issue of equity capital in order that its capital ratios may be returned to a more balanced figure. In our opinion the money, property or labor to be procured or paid for through the issue of said \$300,000 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 any future rate base for the determining of 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 March 31, 1958, may execute a second 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 \$300,000 pursuant to the terms of said loan agreement and second 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 \$300.

Dated at San Francisco, California, this 18<sup>th</sup> day of December, 1956.

*Walter E. Mitchell* President  
*Paul L. ...*  
*...*  
*R. Hardy*  
*E. J. Fox* Commissioners

