

58541

ORIGINAL

Decision No. _____

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. 41100

Thomas E. Srednik and Robert L. Doyle,
for applicant.

O P I N I O N

Roseville Telephone Company has filed this application for authorization (1) to enter into a loan agreement with Pacific Mutual Life Insurance Company, (2) to execute a supplemental mortgage and (3) to issue notes in the principal amount of not to exceed \$1,000,000 for the purpose of paying indebtedness and of financing construction costs.

The application was filed on May 1, 1959. A public hearing was held before Examiner Coleman in San Francisco on May 26, 1959, at which time the matter was taken under submission.

Heretofore, pursuant to authorization granted by the Commission, applicant entered into loan agreements with

Pacific Mutual Life Insurance Company, executed a mortgage on its property, and amending and supplemental indentures thereto, and issued notes in the aggregate principal amount of \$950,000 which notes have been reduced to \$869,500 as of March 31, 1959. The company now desires to increase its borrowings from Pacific Mutual Life Insurance Company and has made, or is making, arrangements to enter into a loan agreement with that company providing for new borrowings up to \$1,000,000 to be represented by additional notes. The loan agreement provides for the execution of a third supplemental mortgage upon the company's properties.

The new notes will bear interest at the rate of 5-1/4% per annum and will mature on May 1, 1984. They may be prepaid at the option of the utility at a premium of 5% during the 12-months' period commencing May 1, 1964 and thereafter at premiums reducing annually in amount.

The purpose of the proposed borrowing is to retire current short-term bank loans, now in the amount of \$500,000, which have been used for capital additions and betterments and to finance the cost of plant additions, improvements and betterments during 1959 and 1960. In this connection, applicant estimates its cost of the proposed construction work at \$1,223,129, which is segregated as follows:

Land, Tahoe Street, storeroom and plant offices	\$ 25,000
Building, Tahoe Street, storeroom and plant offices	50,000
Building - Roseville central office	145,000
Central office equipment -	
12-position toll board, 16 intertoll trunks	100,980
Automatic toll ticket equipment	131,889
Automatic toll ticketing trunks	43,720
Power equipment, Roseville	31,385
Automatic line insulation routiner	3,250
400 lines, 800 terminals, Roseville	77,020
600 lines, 1,200 terminals, Citrus Heights	77,385
Station apparatus	120,000
Station connections	80,000
Large PABX	10,000
Pole lines	40,000
Aerial cables	200,000
Underground cable	2,500
Aerial wire	32,000
Furniture and office equipment	28,000
Vehicles and other work equipment	25,000
Total	<u>\$1,223,129</u>

In considering this matter, we have reviewed applicant's financial reports. A summary statement prepared from such reports indicates applicant's recorded investment in plant and its revenues, net income and number of telephones in service for the past five years as follows:

	Telephone Plant <u>Dec.31</u>	Operating Revenues <u>for Year</u>	Net Income <u>for Yr.</u>	No. of Telephones <u>Dec.31</u>
1954	\$ 862,156	\$283,996	\$46,890	4,144
1955	1,121,019	335,433	39,986	4,921
1956	1,413,398	427,734	50,434	5,543
1957	2,030,438	469,505	29,809	6,153
1958	2,458,046	597,784	50,616	7,173

Analysis indicates that applicant has met its capital costs with long-term borrowings from Pacific Mutual Life Insurance Company and with proprietary capital and to a

lesser extent with current liabilities. A condensed balance sheet showing applicant's financial condition as of March 31, 1959 is as follows:

<u>Assets</u>		
Telephone plant - less reserves of \$343,269		\$2,271,258
Current assets -		
Cash	\$ 257,164	
Accounts receivable	83,433	
Materials and supplies	35,734	
Prepaid expenses	13,038	
Total current assets	<u>389,369</u>	
Deferred debits		<u>23,596</u>
Total		<u>\$2,684,223</u>
<u>Liabilities and Net Worth</u>		
Long-term debt		\$ 869,500
Current liabilities -		
Notes payable	\$ 250,000	
Accounts payable	222,998	
Other current liabilities	107,207	
Total current liabilities		580,205
Net worth -		
Common stock	1,049,130	
Premium on stock	99,856	
Surplus	85,532	
Total net worth		<u>1,234,518</u>
Total		<u>\$2,684,223</u>

Applicant's capital ratios as of March 31, 1959, and as adjusted to give effect to the proposed financing, are as follows:

	<u>As of</u> <u>3/31/59</u>	<u>Pro</u> <u>Forma</u>
Long-term loans	37%	60%
Bank loans	11	-
Common stock and surplus	<u>52</u>	<u>40</u>
Total	<u>100%</u>	<u>100%</u>

Upon a review of the record, it appears that applicant does not have sufficient internal resources to meet its capital requirements and that additional outside financing is necessary to improve applicant's position, to liquidate temporary borrowings and to enable it to go forward with its construction program. With respect to the terms of the proposed notes the testimony shows that interest rates have been increasing since March of this year, when applicant completed its negotiations; that the inclusion of protective redemption provisions is the usual practice in utility debt financing; that some institutional buyers have reported they would not purchase utility offerings without some such provisions; and that it is doubtful applicant could obtain terms as favorable as it now has, if it should be compelled to renegotiate the loan. Exhibits filed at the hearing show that of the public utility bond offerings during 1959 substantially all those rated as AA or lower carried a restricted redemption provision. One witness testified that he had discussed the proposed loan with several banks; that he had participated in other loan arrangements; and that he had found the proposed terms of applicant's loan were favorable. Another witness, with a wide experience in utility financing, testified as to his discussions with underwriters and institutions which indicated the general requirement of institutional buyers, at the present time, for concessions in the redemption provisions.

Upon the basis of the information before us, we are of the opinion that an order is warranted authorizing the issue of the notes with the terms as set forth in the application.

The authority herein granted 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

A public hearing having been held in the above-entitled proceeding and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of the notes herein authorized is reasonably required for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Roseville Telephone Company, on and after the effective date hereof and on or before December 31, 1959, may enter into a loan agreement with Pacific Mutual Life Insurance Company, may execute a third supplemental mortgage, and may issue notes in the aggregate principal amount of not to exceed \$1,000,000, subject to the terms and conditions of said loan agreement and supplemental mortgage.

2. Roseville Telephone Company shall use the proceeds to be received through the issue of said notes for the purposes set forth in this application.

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

4. The authority herein granted will become effective when Roseville Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,000.

Dated at San Francisco, California,
this 8th day of June, 1959.

[Signature]
President
[Signature]
[Signature]
Commissioners

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.

