

Decision 89 11 054 NOV 2 2 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
ROSEVILLE TELEPHONE COMPANY for )  
Authorization Pursuant to Public )  
Utilities Code Sections 816-830 to )  
Issue Certificates Evidencing Not )  
More Than 1,025,848 Shares of Its )  
Capital Stock (U1015C) )

**ORIGINAL**

Application 89-09-026  
(Filed September 18, 1989)

OPINION

Summary of Decision

This decision grants Roseville Telephone Company (Roseville) the authority requested under Public Utilities (PU) Code §§ 816 through 830, to issue stock certificates evidencing up to 1,025,848 shares of Roseville's common stock, of which (i) not more than 500,000 shares are to be issued and sold to the Roseville Telephone Company Retirement Supplement Plan (Plan), a defined contribution benefit plan established by Roseville in 1968 for the purpose of encouraging employees of Roseville to systematically save or defer a portion of their current income and to become shareholders of Roseville, and (ii) not more than 525,848 shares are to be issued in payment of a 5% stock dividend to the stockholders of record at the close of business on December 1, 1989.

Notice of the filing of the application appeared on Commission's Daily Calendar of September 18, 1989. No protests have been received.

Roseville, a California corporation, operates as a public utility under the jurisdiction of this Commission. Roseville provides local and long-distance service in the City of Roseville and contiguous areas in that vicinity.

For the calendar year 1988, Roseville reported total operating revenues of \$48,790,000 and net income of \$10,414,000 as shown in its Consolidated Income Statement attached as a part of Exhibit A-1 to the application. For the 7-month period ended July 31, 1989, Roseville reported total operating revenues of \$33,783,148 and net income of \$9,055,586 as shown in its Consolidated Income Statement attached as part of Exhibit A-2 to the application.

Roseville's Consolidated Balance Sheet as of July 31, 1989 also attached as part of Exhibit B-2 is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Property, Plant and Equipment, Net	\$ 95,981,796
Investments-Affiliated Companies	5,651,920
Current Assets	23,745,674
Other Assets and Deferred Charges	<u>441,194</u>
Total	\$125,820,584
 <u>Liabilities and Equity</u>	
Stockholders' Equity	\$ 80,685,400
Long-term Debt	7,476,500
Current and Accrued Liabilities	23,965,088
Other Liabilities and Deferred Credits	<u>13,693,596</u>
Total	\$125,820,584

As of August 31, 1989, Roseville's capital stock consisted of 20,000,000 authorized shares of Common Stock, without par value, of which 10,016,953 shares were issued and outstanding. No other shares are expected to be issued through November 30, 1989.

Roseville proposes to issue and sell to the Plan up to 500,000 shares of its authorized capital stock at not less than \$15.00 per share. All employees of Roseville are eligible to participate in the Plan after one year of service, and may contribute to the Plan not more than 6% of annual compensation as an "employee savings contribution" and not more than 10% of

annual compensation as an "employee retirement contribution." Roseville makes employer contributions equal to 50% of the employees' aggregate savings and retirement contributions.

The assets of the Plan are invested in Roseville's common stock. Roseville has stated that when its common stock is not available for purchase by the Plan, assets are invested in short-term U.S Government obligations, bank certificates of deposit, money market funds or cash equivalents. Roseville has stated that in recent years there have not been sufficient shares of its common stock available for purchase by the Plan's Trustee. As a result, the Plan has experienced an increase in cash and cash equivalents. At July 31, 1989, the Plan owned 440,638 shares (with an estimated market value of \$15 per share or \$6,609,570), or 4.4% of Roseville's common stock and had cash, cash equivalents and other liquid investments in the aggregate amount of \$7,572,658.

Roseville has stated that it has complied with the registration requirements of the Securities Act of 1933, as amended, by filing a Form S-8 Registration Statement with the Securities and Exchange Commission. Form S-8 is utilized for the registration of securities of an issuer to be offered to its employees pursuant to an employee benefit plan.

Assuming the issuance for sale of 500,000 shares at a price of \$15 per share, the total proceeds to be utilized by Roseville would be \$7,500,000. Roseville has stated that it would use these proceeds toward capital expenditures in 1989 and 1990 (budgeted to be an aggregate \$50,255,450), the discharge of short-term bank debt incurred to finance such capital expenditures, and general corporate purposes.

According to Roseville, budgeted capital expenditures for 1989 and 1990 are as follows:

<u>Description</u>	<u>1989</u>	<u>1990</u>	<u>Total</u>
Buildings	\$ 6,207,799	\$ 8,151,668	\$14,359,467
Central Office			
Equipment	14,522,475	8,008,213	22,530,688
Outside Plant	<u>7,073,218</u>	<u>6,292,077</u>	<u>13,365,295</u>
	\$27,803,492	\$22,451,958	\$50,255,450

The CACD has made note of Roseville's construction budgets and finds that the financing would be necessary to fund the proposed capital improvements and to partially reimburse Roseville's treasury for those capital additions and improvements. The CACD has no objection to Roseville's proposed issuance of the shares as requested in the application; however, Roseville is placed on notice, by this decision, that the Commission does not find that Roseville's capital improvements program is necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate case or rate base offset proceedings.

Roseville also proposes to issue up to 525,848 shares of its authorized but unissued common stock in payment of a 5% stock dividend on the 10,516,953 shares which may be issued and outstanding as of December 1, 1989 (assuming the issuance and sale prior to the date thereof of up to 500,000 shares of Roseville's common stock to the Plan). Roseville has stated that each shareholder will receive one share for each 20 shares such shareholder holds as of December 1, 1989, and the shareholder will receive cash on an equivalent basis in place of fractional shares. On September 14, 1989, Roseville's board of directors estimated that these shares will have a fair market value of \$15.00 per share as of December 15, 1989. Roseville has stated that the \$15.00 fair market value of Roseville's common stock, as estimated by the board of directors, reflects recently known sales of Roseville's shares by parties other than Roseville.

Roseville has estimated that a 5% stock dividend will result in a transfer of \$7,887,720 from the retained earnings account to the capital stock account.

Capital Ratios

Roseville's capital ratios, as recorded and adjusted as of July 31, 1989 to give pro forma effect to the proposed issuance of up to 500,000 shares to the Plan and 525,848 shares as a stock dividend, reflect only a small change: from 8.48% to 7.81% for long-term debt, and from 91.52% to 92.19% for common equity.

The Commission Advisory and Compliance Division (CACD) has reviewed the application and concludes that Roseville's proposed issuance of stock is necessary to meet forecasted requirements. Therefore, CACD has no objection to Roseville's distribution of 1,025,848 shares consisting of not more than 500,000 shares of common stock to be sold to the Plan and not more than 525,848 shares of common stock as a 5% stock dividend on its issued and outstanding shares.

Cash Requirements Forecasts

Roseville's cash requirements, for the years 1989, 1990, and 1991 are provided as part of supplemental data furnished to the CACD, are shown as follows:

	<u>PROJECTED</u>		
	(Thousands of Dollars)		
	<u>1989</u>	<u>1990</u>	<u>1991</u>
Net cash provided by operating activities	\$18,800	\$18,700	\$19,400
Cash used in investing activities	(28,000) <sup>(1/)</sup>	(25,000) <sup>(1/)</sup>	(20,000)
Financing activities:			
Proceeds from borrowing	7,000 <sup>(2/)</sup>	20,000 <sup>(2/)</sup>	10,000
Debt repayments	(800)	(7,800)	(2,100)
Sale of common stock <sup>(3/)</sup>	7,500	-	-
Cash dividends paid	<u>(4,800)</u>	<u>(6,600)</u>	<u>(7,000)</u>
Cash provided by financing activities	<u>8,900</u>	<u>5,600</u>	<u>900</u>
Net increase (decrease) in cash	(\$300)	(\$700)	\$300

<sup>1/</sup> Capital expenditures projected in accordance with the Company's 1990 financial attrition testimony.

<sup>2/</sup> Projected borrowings in accordance with Company's 1990 financial attrition testimony.

<sup>3/</sup> Proceeds from proposed stock issuance to the Company's Retirement Supplement Plan for which authority is requested in A.89-09-026.

Findings of Fact

1. Roseville, a California corporation, operates as a public utility under the jurisdiction of this Commission.

2. Roseville has need for external funds for the purpose set forth in the application.

3. The proposed issuance of common stock would be for a proper purpose and would not be adverse to the public interest.

4. The money, property, or labor to be procured, or paid for, by the proposed common stock is reasonably required for the purposes specified in the application, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

5. The Commission does not, by this decision, determine that Roseville's cost of capital is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case or rate base offset proceedings.

6. The Commission does not, by this decision, determine that Roseville's capital budget is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case or rate base offset proceedings.

7. There is no known opposition to this proceeding and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The authority requested in the application should be granted to the extent set forth in the order which follows.
3. The proposed common stock is for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the issuance of securities may not be charged to operating expenses or to income.
4. There is no known opposition to the proceeding and no reason to delay granting the authority requested.

In issuing our order, we place Roseville and its stockholders on notice that we do not regard the number of shares outstanding, the total book value of these shares or the dividends paid as measuring the return Roseville should be permitted to earn on its investment in plant. This authorization is not to be construed as a finding of the value of Roseville's stock or properties nor as indicative of the amounts to be included in proceedings for the determination of just and reasonable rates.

The following order should be effective on the date of signature and payment of the fee set by Code Section 1904.1 to enable Roseville to proceed with the stock issuance and payment of its 5% stock dividend expeditiously.



ORDER

IT IS ORDERED that:

1. Roseville Telephone Company (Roseville), on or after the effective date of this order, (a) may issue, before December 31, 1990, stock certificates evidencing up to 500,000 shares of its Common stock, without par value, to be issued and sold to the Roseville Telephone Company Retirement Supplement Plan, and (b) may issue stock certificates evidencing up to 525,848 shares of its Common Stock, without par value, in payment of a 5% stock dividend to stockholders of record as of December 1, 1989.

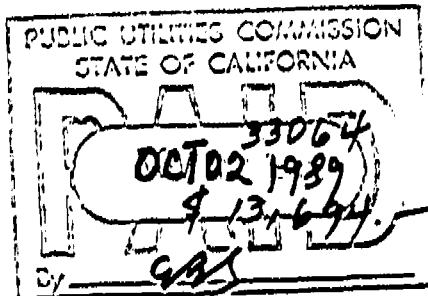
2. Roseville shall file the reports required by General Order Series 24.

3. The application is granted as set forth above.

The authority granted by this order to issue common stock will become effective when Roseville pays \$13,694, the fee set by Public Utilities Code Section 1904.1. In all other respects, this order is effective today.

Dated NOV 22 1989, at San Francisco, California.

G. MITCHELL WILK  
President  
FREDERICK R. DUDA  
STANLEY W. HULETT  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
Commissioners



I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE COMMISSIONERS TODAY.

*Wesley Franklin*

- 9 - WESLEY FRANKLIN, Acting Executive Director