

CACD/RAX

Decision 92-02-052 February 20, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
ROSEVILLE TELEPHONE COMPANY (U-1015-C)  
for authorization Pursuant to Public  
Utilities Code Sections 816-830 to issue,  
sell and deliver Notes in the aggregate  
principal amount not to exceed  
\$40,000,000, and to execute and deliver  
related documents providing therefor.

Application 91-11-045  
(Filed November 4, 1991)

**ORIGINAL**

O P I N I O N

Summary of Decision

This decision grants Roseville Telephone Company (Roseville) the authority requested in Application (A.) 91-11-045 (Application).

Roseville requests authority under §§ 816-830 and § 851 of the Public Utilities (PU) Code to:

- 1.- Issue, sell and deliver a Promissory Note or Notes in an aggregate principal amount not to exceed \$40,000,000;
2. Execute and deliver Note Purchase Agreements or other similar transactional agreements; and
3. Use the net proceeds for the purposes set forth in the Application.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of December 9, 1991. No protests have been received.

Background

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

For the calendar year 1990, Roseville reported that it generated total operating revenues of \$73,629,000 and net income of \$16,830,000 as shown in its Consolidated Income Statement incorporated by reference from Exhibit A-1 to (A.) 91-08-042.

For the nine-month period ended September 30, 1991, Roseville reported that it generated total operating revenues of \$60,661,000, and net income of \$15,368,000 as shown in Exhibit A-2 to the Application.

Roseville's Consolidated Balance Sheet as of September 30, 1991, attached as Exhibit A-1 to the Application, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Telephone Plant	\$128,870,000
Investments-Affiliated Companies	10,639,000
Current Assets	28,197,000
Other Assets and Deferred Charges	<u>1,860,000</u>
Total	\$169,566,000
<u>Liabilities and Equity</u>	<u>Amount</u>
Common Equity	\$110,985,000
Long-Term Debt	5,710,000
Current and Accrued Liabilities	35,282,000
Other Liabilities/Deferred Credits	<u>17,589,000</u>
Total	\$169,566,000

Proposed Financing

Roseville requests authority to execute and deliver a Promissory Note or Notes (Notes) and related Note Purchase Agreements or other transactional agreements (Note Purchase Agreements) evidencing Roseville's loan or loans from banks,

insurance companies or other financial institutions, in an aggregate principal amount not to exceed \$40,000,000, to finance Roseville's construction expenditures, acquisition of property, and/or retirement or refunding of long- and short-term indebtedness.

Roseville has not, at the present time, entered into any contract for the execution and deliverance of the Notes. Roseville plans to place the Notes privately with institutional investors.

The principal amount and the terms and conditions of the Notes will be determined by Roseville's management and/or its Board of Directors in accordance with prevailing market conditions. The Notes will set forth, among other things, the aggregate principal amount, interest rate and maturity date of the series of proposed financings. Roseville anticipates that the Notes will have the following characteristics:

1. A maturity consistent with the longest term currently provided by financial institutions which, under current market conditions, is expected not to be in excess of fifteen (15) years;
2. Amortization of the principal amount of the Notes over the term of the Notes subsequent to a negotiated period during which only interest payments are made;
3. Provisions allowing the Notes to be redeemed or repaid prior to maturity in accordance with the negotiated terms, under current market conditions, of the Note Purchase Agreements;
4. An interest rate to be negotiated by Roseville and its lender(s) providing a favorable rate to Roseville upon consideration of Roseville's financial condition and current market conditions.

Roseville anticipates that it will enter into either a Note Purchase Agreement with one or more lenders providing it

with the ability to borrow the maximum amount for which authority is issued, or enter into a series of Note Purchase Agreements, none of which singularly provide for the incurrence of indebtedness in excess of twenty million dollars (\$20,000,000), with such Agreements to be executed and the funds drawn by Roseville at intervals during the two-year period commencing on the effective date of this Order.

The Commission Advisory and Compliance Division (CACD) has reviewed Roseville's proposed financing and recommends that Roseville submit a written report to CACD demonstrating why the resulting interest rate and cost of money are the most advantageous to Roseville and its ratepayers. We concur with CACD's recommendation.

Construction Budget

Roseville's construction budget for 1992 and 1993 amounts to approximately \$57,402,000 and includes projected capital expenditures of \$30,546,000 for general support assets, \$12,936,000 for central office assets and \$13,920,000 for cable and wire facilities. Roseville's estimated capital additions for 1991 and 1992 as presented in Exhibit C attached to the Application are as follows:

	<u>1992</u>	<u>1993</u>
General Support Assets	\$15,590,000	\$14,956,000
Central Office Assets	4,014,000	8,922,000
Cable and Wire Facilities	<u>7,798,000</u>	<u>6,122,000</u>
Total	\$27,402,000	\$30,000,000

In its Application, Roseville reports that the construction, extension, and improvement of its facilities are reasonable and necessary to provide for the continuing improvement and growth of its telephone systems to meet the

rapidly increasing demands for telephone service in its service area.

CACD has reviewed the Application and Roseville's construction program. CACD concludes that the proposed financing is necessary to fund Roseville's construction program; however, Roseville is placed on notice by this decision that the Commission does not find that its improvement program is necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate or rate base offset proceedings.

#### Capitalization Ratios

After giving pro forma effect to the proposed issuance and sale of up to \$40,000,000 aggregate principal amount of Notes, as well as the repayment of the currently outstanding short-term debt and outstanding debenture series, Roseville's capitalization ratios as of September 30, 1991, as presented in Exhibit B attached to the Application, are as follows:

<u>Component</u>	<u>September 30, 1991</u>	<u>Pro Forma</u>
<u>Debt</u>		
Short-Term Borrowings	4.11%	-
Debentures (including current portion)	4.69%	-
Notes	-	<u>26.49%</u>
Total Debt	8.80%	26.49%
<u>Equity</u>		
Capital Stock	73.76%	67.13%
Retained Earnings	<u>17.44%</u>	<u>6.38%</u>
Total Equity	91.20%	73.51%
Total Debt and Equity	100.00%	100.00%

Roseville is placed on notice by this decision that the Commission does not find that Roseville's capital ratios are necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate cases or cost of capital proceedings.

Cash Requirements Forecasts

Roseville's cash requirements forecasts for the years 1991 and 1992, shown as part of Exhibit A-1 of the Application, are summarized as follows:

<u>Components</u>	<u>1991</u>	<u>1992</u>
Funds Required for Construction	\$26,754,000	\$27,402,000
Short-Term Debt Outstanding	3,500,000	10,000,000
Long-Term Debt Payments	1,200,000	6,468,000
Increase (Decrease) in Cash Reserve	373,000	(61,000)
Less:		
Estimated Cash from Internal Sources	<u>21,081,000</u>	<u>17,931,000</u>
Additional Funds Required from Outside Sources	\$10,746,000	\$25,878,000

CACD has analyzed Roseville's cash requirements forecasts for 1991 and 1992 and notes that internally generated funds will provide \$21,081,000 or 66% of Roseville's cash requirements for 1991 and \$17,931,000 or 56% in 1992. CACD therefore concludes that the proposed issuance and sale of Roseville's Notes is necessary to help meet forecasted cash requirements. CACD has reviewed the Application and has concluded that the proposed financing is reasonable and that the authority should be granted. The Commission has considered

CACD's recommendations, and finding them reasonable, will adopt them as stated above.

Use of Proceeds

Roseville proposes to use the net proceeds derived from the issue of the Notes for the construction, completion, extension and improvement of its facilities. Additionally, Roseville proposes to use the funds for the discharge of short-term bank debt incurred to finance capital expenditures prior to its concluding arrangements for a permanent financing, and the discharge, if necessary, of its outstanding debenture series.

Findings of Fact

1. Roseville, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. Roseville has need for external funds for the purposes set forth in the Application.
3. The proposed issuance and sale of the Notes are for proper purposes and are not adverse to the public interest.
4. The money, property, or labor to be procured or paid for by the proposed financing is reasonable and required for the purposes specified in the Application.
5. The Commission does not by this decision determine that Roseville's construction program is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate or rate base offset proceedings.
6. The Commission does not by this decision determine that Roseville's capital ratios are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate or cost of capital proceedings.
7. There is no known opposition to the Application and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The Application should be granted to the extent set forth in the order that follows.
3. The proposed Notes are for lawful purposes and the money, property or labor to be obtained by them is required for these purposes. Proceeds from the Notes may not be charged to operating expenses or income.
4. The following order should be effective on the date of signature and payment of the fee set by PU Code § 1904(b), to enable Roseville to proceed with its financing expeditiously.

O R D E R

IT IS ORDERED that:

1. Roseville Telephone Company (Roseville), on or before January 31, 1993, is authorized to:
  - A. Issue, sell and deliver Promissory Note or Notes (Notes) in an aggregate principal amount not to exceed \$40,000,000 upon terms and conditions substantially consistent with those described in or contemplated by the Application;
  - B. Execute and deliver Note purchase agreements or other similar transactional agreements, and;
  - C. Use the net proceeds obtained from the issuance and sale of the Notes for the purposes set forth in the Application.
2. Within thirty days after the issuance and sale of the Notes, Roseville shall submit to the Commission Advisory and Compliance Division (CACD) a report showing the principal amount,



interest rate, and other significant terms of the Notes issued, and why the terms are the most advantageous to ratepayers.

3. Within thirty days after the issuance and sale of the notes, Roseville shall submit to CACD a copy of the Note Purchase Agreements or other transactional agreements entered into with the lender or lenders.

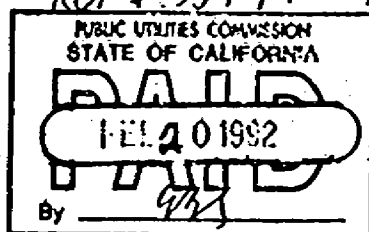
4. Roseville shall file the reports required by General Order Series 24.

5. Roseville shall submit an original and four copies of the reports required by ordering paragraphs two and three to CACD with a transmittal letter stating the application and decision numbers. Parties need not be served with copies of the reports unless they contact Roseville in writing to request such. When service is made on parties who request copies of the report, Roseville shall attach to its report a certificate showing service by mail upon all those requesting copies. The Director of CACD shall send the original and one copy to the Docket Office for filing.

6. The Application is granted as set forth above. The authority granted by this order will become effective when Roseville pays \$23,390.00, the fee set by Public Utilities Code § 1904(b).

In all other respects, this order is effective today.

Dated FEB 20 1992 at San Francisco, California.



DANIEL Wm. FESSLER  
President  
JOHN B. OHANIAN  
NORMAN D. SHUMWAY  
Commissioners

Commissioner Patricia M. Eckert being necessarily absent, did not participate.

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

*[Signature]*  
NEAL J. SHULMAN, Executive Director