

ORIGINAL

Decision No. 38321

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
The Pacific Telephone and Telegraph
Company, a corporation, for an order
authorizing it to issue and sell
\$75,000,000 principal amount of forty-
year, 2-3/4% debentures, due December
1, 1985, and authorizing it to execute
and deliver an indenture to be dated
December 1, 1945.

Application
No. 27010

BY THE COMMISSION:

O P I N I O N

In this application, The Pacific Telephone and Telegraph Company asks permission to issue and sell \$75,000,000 principal amount of forty-year, 2-3/4% debentures, due December 1, 1985, by means of a public offering through competitive bidding, as provided for in the statement of terms and conditions relating to bids filed in this application as Exhibit "C", and to execute and deliver an indenture similar in form to that filed in this application as Exhibit "B".

Applicant owns and operates, directly, or through subsidiary corporations, a general telephone system in the States of California, Nevada, Oregon, Washington and part of Idaho. As of August 31, 1945, it had outstanding stocks and bonds as follows:

A.	Common Stock, 2,461,250 shares, par value \$100 per share	\$246,125,000
B.	Preferred Stock, 6% cumulative, 820,000 shares, par value \$100 per share	82,000,000
C.	Funded Debt	54,568,000
	a) Refunding mortgage, 3½% bonds, Series B, due April 1, 1966	\$29,652,000
	b) Refunding mortgage, 3½% bonds, Series C, due December 1, 1966	24,916,000

As of August 31, 1945, applicant was indebted to the Trustee of its Pension Fund in the amount of \$7,299,552.03, and owed The American Telephone and Telegraph Company \$5,100,000.

Applicant intends to redeem all of its outstanding Series C bonds (\$24,916,000) on December 1, 1945, and its Series B bonds (\$29,652,000) on April 1, 1946, or effect their retirement prior thereto. In effecting said redemptions or retirement, applicant must pay a premium of 7½% on the principal amount of its Series C bonds, and a premium of 5% on the principal amount of its Series B bonds. In the aggregate the premium payment amounts to \$3,833,145 which, added to the principal amount of the Series C and Series B bonds, makes a total payment of \$58,401,145.

The application shows that The American Telephone and Telegraph Company has agreed to advance to applicant \$58,401,145 to enable it to redeem said bonds. The advance will be represented by a promissory note to be dated December 1, 1945, and to be payable on or before December 31, 1945. The note is to bear interest at the rate of 2-¾% per annum.

For the purpose of paying said note of \$58,401,145 and for the reimbursement of its treasury because of income expended for the redemption of bonds and the acquisition of properties, applicant asks permission to issue \$75,000,000 face amount of debentures. The proceeds which will be applied to the reimbursement of applicant's treasury, or such amount thereof as may be necessary, will be used to pay the obligations evidenced by 4% demand notes sold to Bankers Trust Company as Trustee of the Pension Fund established by applicant, which obligations, as of December 31, 1945, it is estimated will amount to about \$7,100,000, and to repay, to the extent that the remaining proceeds are sufficient therefor, advances made by The American Telephone and Telegraph Company to applicant and evidenced by 4% promissory notes, each due one day after date. It is estimated that the advances, as of December 15, 1945, will amount to about \$9,900,000.

The debentures will be dated December 1, 1945, and mature December 1, 1985. They will bear interest at the rate of 2-3/4% per annum, payable semi-annually on June 1 and December 1 of each year. The debentures may, as provided in the indenture, be redeemed at the option of applicant, as a whole or from time to time in part, on any date prior to maturity upon giving the notice referred to below at the following redemption prices,

together with accrued interest to the date fixed for redemption:

To and including November 30, 1951	106%
Thereafter to and including November 30, 1957	105%
Thereafter to and including November 30, 1963	104%
Thereafter to and including November 30, 1969	103%
Thereafter to and including November 30, 1975	102%
Thereafter to and including November 30, 1980	101%
And thereafter	100%

The notice of redemption to the holders of coupon debentures must be published not less than thirty days and not more than ninety days before the date fixed for redemption, as provided in the indenture. Notice of redemption must be mailed to the registered holders of coupon debentures registered as to principal, and to the registered holders of registered debentures without coupons.

The indenture agreement provides for a total issue of \$75,000,000 of debentures. The payment of the debentures will not be secured by a lien on applicant's properties. Applicant, however, covenants that if, except in the case of purchase money mortgages and liens, it shall at any time mortgage, pledge or otherwise subject to any lien, the whole or any part of any property now owned or hereafter acquired by it, it will secure the outstanding debentures ratably with the indebtedness or obligation secured by such mortgage or lien.

The indenture agreement is in satisfactory form and the order herein will authorize its execution and delivery.

Applicant intends to sell the debentures on or about December 10, 1945, through competitive bidding. It is therefore not now in a position to advise the Commission of the price at which it will sell the debentures. It asks, however, that the Commission authorize the issue of the debentures, subject to the "Statement of the Terms and Conditions Relating to Bids" which is a part of Exhibit "C" on file in this application. This request is made in the interest of expediting the filing of the post-effective amendment to the registration statement. We

appreciate that the post-effective amendment should be filed with the least possible delay after the acceptance of a bid by applicant. This Commission has always been interested in the price at which a utility sells its securities and has an interest in the price at which applicant will sell its debentures. This is evidenced by our Decision No. 38259, dated September 26, 1945, in Application No. 26968. The order herein will authorize applicant to issue the debentures subject to the condition that such authority will not become effective until applicant has paid the fee required by Section 57 of the Public Utilities Act, and to the further condition that such authority will not become effective until the Commission, by supplemental order, has fixed the price at which the debentures may be sold. The payment of the fee will, as usual, be stamped on the original and on the copies of the decision and does not require the entry of a further order in this matter. Upon being advised of the price at which applicant proposes to sell its debentures, the Commission will promptly enter an appropriate supplemental order in this application.

O R D E R

The Pacific Telephone and Telegraph Company having applied to the Railroad Commission for permission to issue and sell \$75,000,000 of forty-year, 2-3/4% debentures, due December 1, 1985, and the Commission having considered applicant's request and it being of the opinion that this is not a matter on which a hearing is necessary; that the money, property or labor to be procured or paid for by applicant through the issue of said \$75,000,000 of 2-3/4% debentures, due December 1, 1985, is

reasonably required by applicant for the purposes herein stated; that the expenditures for such purposes, other than the use of accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted to the extent indicated herein, therefore,

IT IS HEREBY ORDERED as follows:

1. The Pacific Telephone and Telegraph Company may, after the effective date hereof and on or before April 1, 1946, issue and sell at the price fixed by a supplemental order, \$75,000,000 principal amount of forty-year, 2-3/4% debentures, due December 1, 1985. The Pacific Telephone and Telegraph Company shall use the proceeds, exclusive of accrued interest, derived from the issue and sale of said debentures to pay the note issued to The American Telephone and Telegraph Company to represent advances to applicant for the purpose of enabling it to redeem its outstanding Series C and Series B bonds, and to reimburse its treasury on account of income expended for the redemption of Series C and Series B bonds through sinking fund operations, and to acquire properties. The accrued interest may be used by applicant for general corporate purposes. Pending the preparation and delivery of definitive debentures, The Pacific Telephone and Telegraph Company may execute and deliver, in lieu of such definitive debentures, temporary debentures, such temporary debentures to be issued and sold under the same terms and conditions as applicant is herein authorized to issue definitive debentures.

2. The Pacific Telephone and Telegraph Company may execute and deliver an indenture in, or substantially in, the

same form as the indenture filed in this application as Exhibit "B".

3. The authority herein granted will become effective when the Railroad Commission has entered a supplemental order fixing the price at which The Pacific Telephone and Telegraph Company may sell said debentures, and when The Pacific Telephone and Telegraph Company has paid the fee prescribed by Section 57 of the Public Utilities Act.

4. The Pacific Telephone and Telegraph Company shall file with the Railroad Commission within thirty (30) days after the issue and sale of said debentures, a complete copy of its registration statement filed with the Securities and Exchange Commission, including the exhibits referred to therein.

5. The Pacific Telephone and Telegraph Company shall file with the Railroad Commission a report, or reports, required by the Commission's General Order No. 24-A, which order insofar as applicable is made a part of this order.

6. The Pacific Telephone and Telegraph Company shall, on or before June 30, 1946, file with the Railroad Commission a statement showing in detail the expenses incurred because of the issue and sale of said debentures and the redemption of its said Series C and Series B bonds:

CALIFORNIA RAILROAD COMMISSION

INTER-OFFICE CORRESPONDENCE

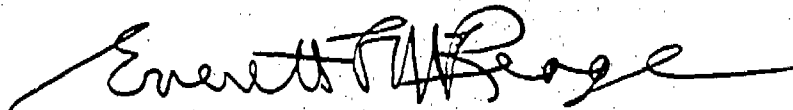
SAN FRANCISCO

22 October 1945

The Pacific Telephone & Telegraph Co.
Application No. 27010

Gen. H. G. Mathewson,
Secretary,
B u i l d i n g.

You are hereby informed it is my opinion that, under the provisions of Decision No. 38321 issued in the above captioned application, the applicant is not required to pay the fee for issuing to it a certificate authorizing it to issue bonds as provided in said application, until the supplemental order, provided for in said decision, has actually been issued by the Railroad Commission. Simultaneously with the issuing of such supplemental order, the fee required by law must be paid by said applicant.



Everett C. McKeage
Chief Counsel

ECMCK/GEH

noted. H. Mathewson
sec

Dated at San Francisco, California, this 19th day
of October, 1945.

David Anderson
Justus F. Cracuen

Francis Dean

Frank Powell
Commissioners

ROWELL; concurring, ~~in part.~~

I have concurred in the foregoing order, however, I feel compelled to state
~~I concur, except~~ that I see no occasion for the requirement that applicant get a further order from the Commission before being permitted to sell its bonds to the highest bidder. All the conditions of the proposed sale are before us for approval now. The only unknown factor is the price. Under these conditions, a denial of the right to promptly accept the highest bid is inconsistent with the competitive bidding principle. We are bringing about a delay that certainly does not aid applicant in obtaining a higher price. But it might have the contrary effect, if not to actually defeat the issuance.

Irving S. Rowell

Commissioner