

ORIGINAL

Decision No. 41881

BEFORE THE PUBLIC UTILITIES 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 Thirty-five Year _____% Debentures)
 due September 15, 1983, and authorizing)
 it to execute and deliver an Indenture)
 to be dated September 15, 1948.)
 -----)

Application
No. 29512

O P I N I O N

The Pacific Telephone and Telegraph Company has applied to the Public Utilities Commission for an order authorizing it (a) to issue and sell, at competitive bidding, \$75,000,000 principal amount of Thirty-five Year _____% Debentures due September 15, 1983; (b) to execute and deliver an Indenture to be dated September 15, 1948; and (c) to use the proceeds from the issue and sale of said debentures to reimburse its treasury.

From time to time applicant has issued and sold debentures to reimburse its treasury, to pay indebtedness and to finance the cost of additions to its plants and properties and to those of its subsidiary, Bell Telephone Company of Nevada. Its presently outstanding debentures, and its other capital issues, as of May 31, 1948, are reported as follows:

Debentures -	
40-year, 2-3/4%, dated 12-1-45, due 12-1-85	\$ 75,000,000
40-year, 2-7/8%, dated 10-1-46, due 10-1-86	75,000,000
40-year, 3-1/8%, dated 10-1-47, due 10-1-87	100,000,000
30-year, 3-1/4%, dated 3-1-48, due 3-1-78	75,000,000
Total debentures	<u>325,000,000</u>
Preferred stock	82,000,000
Common stock	<u>278,757,700</u>
Total	<u>\$685,757,700</u>

Applicant has been authorized, by Decision No. 41591, dated May 18, 1948, to issue and sell \$60,126,200 par value of common stock which is not included in the preceding tabulation. In addition it is indebted to American Telephone and Telegraph Company, as of May 31, 1948, in the amount of \$67,000,000, which is represented by unsecured one-day 2.75% notes.

The present application shows that between October 31, 1922, and May 31, 1948, applicant increased its investment in plant and other investment accounts by the sum of \$369,225,667.55, of which \$610,470,988.88 was obtained through the issue of stock, long-term debt and the \$67,000,000 of one-day notes referred to in the preceding paragraph, leaving a balance of \$258,754,678.67 which was not secured through the issue of stock or stock certificates or other evidence of interest or ownership, or bonds, notes or other evidences of indebtedness. Applicant has advised the Commission that currently it is engaged in a construction program calling for a total estimated expenditure during 1948 as follows: ("000" omitted)

<u>Item</u>	<u>Gross Construction Expenditures</u>	<u>Net Construction Expenditures</u>
Right of Way	\$ 721	\$ 717
Land and Buildings	34,853	34,067
Central Office Equipment	78,007	70,974
Station Equipment	56,162	24,345
Exchange Lines	45,467	40,554
Toll Lines	17,581	15,663
General Equipment*	8,555	6,298
Total	<u>\$241,346</u>	<u>\$192,618</u>

*Excludes inter-company and inter-area transfers in amount of \$31.

To reimburse its treasury in part, applicant now proposes to execute an indenture similar in form to those executed in connection with the debentures now outstanding, and to create a new issue of debentures in the amount of \$75,000,000 which it proposes to offer for sale at competitive bidding. Said new debentures will be dated as of September 15, 1948, will bear interest at a rate to be specified by the bidders, will mature September 15, 1983, and will be subject to redemption at prices expressed in percentages of the principal amount as follows:

The redemption price to and including September 14, 1953 will be three points (3% of the principal amount) above the public offering price. The redemption price for each 12 months' period beginning on September 15, 1953 and each September 15 thereafter to and including September 15, 1977, will be determined by reducing the initial redemption price by $1/26$ of the amount by which such price exceeds 100% multiplied by the number of 12 months' periods which have elapsed since September 14, 1952, and will be specified to the nearest .01 (1/100) of 1% (or if there is no nearest .01 of 1%, then to the next higher .01 of 1%). The redemption price on and after September 15, 1978 will be 100%.

It is applicant's intention to invite bids on or about September 10, 1948, and to open the same on or about September 21, 1948, reserving the right to reject any and all bids.

Following the issue and sale of the debentures and the reimbursement of the treasury, the company intends to use the treasury funds to repay its then outstanding advances from American Telephone and Telegraph Company, and any outstanding promissory notes, evidencing temporary loans from banks, which it expects to negotiate in the interim, which advances and loans, it is estimated, will approximate \$55,000,000 as of September 30, 1948, and to use the remaining proceeds to provide for extensions, additions and improvements to its telephone plant, to provide funds

for similar requirements of its subsidiary, and for other corporate purposes.

The order herein will authorize the company to issue said \$75,000,000 of debentures subject to the condition that such authority will not become effective until the company has paid the fee prescribed by Section 57 of the Public Utilities Act, and when the Commission by supplemental order has fixed the price at which it may sell said debentures.

O R D E R

The Pacific Telephone and Telegraph Company having applied to the Public Utilities Commission for permission to issue and sell \$75,000,000 of debentures, and the Commission having considered the matter and being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for through said issue is reasonably required for the purposes specified herein, and 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; therefore,

IT IS HEREBY ORDERED as follows:

1. The Pacific Telephone and Telegraph Company, after the effective date hereof and on or before October 31, 1948, may issue and sell, at a price to be fixed by a supplemental order, ✓ \$75,000,000 of Thirty-five Year _____% Debentures due September

15, 1983. 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 proceeding as Exhibit "C".

3. The Pacific Telephone and Telegraph Company shall use the proceeds, other than the accrued interest, realized through the issue and sale of said debentures to reimburse its treasury on account of income expended for additions, betterments and improvements to its properties and to those of its subsidiary, and thereafter shall apply said proceeds to pay indebtedness due American Telephone and Telegraph Company, and any outstanding loans from banks which applicant may negotiate in the interim, and to pay for extensions, additions and improvements to its telephone plant and that of its subsidiary, the cost of which is chargeable to telephone plant accounts. The accrued interest may be used for general corporate purposes.

4. The authority herein granted to issue and sell said debentures will become effective when the Public Utilities 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 required by Section 57 of the Public Utilities Act, which fee is twenty-one thousand seven hundred fifty (\$21,750.00) dollars. All other authority granted by this order is effective as of the date hereof.

5. The Pacific Telephone and Telegraph Company shall file with the Public Utilities 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 all exhibits, except those previously filed in a registration statement referred to therein, covering the issue of said debentures; also, two (2) copies of the indenture executed under the authority herein granted.

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

7. The Pacific Telephone and Telegraph Company, within six (6) months after the issue and sale of said debentures, shall file with the Public Utilities Commission a statement showing in detail the expenses incurred because of the issue and sale of said debentures.

Dated at San Francisco, California, this 27th day of July, 1948.

R. J. Anderson
Justice J. G. ...
Harold H. ...
Commissioners