

ORIGINAL

Decision No. 48874

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. (a) to)
 issue and sell \$50,000,000 principal)
 amount of Thirty-one Year _____%)
 Debentures due September 15, 1984,)
 (b) to execute and deliver an)
 Indenture to be dated September 15,)
 1953, and (c) to issue 1,004,603)
 common shares for subscription and)
 sale for cash at \$100 per share to)
 the holders of its preferred and)
 common shares.)
 -----)

Application
No. 34501

Arthur T. George, for applicant; Dion R. Holm,
 City Attorney, and Paul L. Beck, Chief
 Valuation and Rate Engineer in the City
 Attorney's office, by Paul L. Beck, for the
 City and County of San Francisco, interested
 party; Donald E. Hall, Supervisor of Finance
 and Research, Washington Public Service Com-
 mission, interested party; John F. Donovan,
 for the Staff of the Commission.

O P I N I O N

In this proceeding The Pacific Telephone and Telegraph Com-
 pany seeks authorization to issue and sell \$50,000,000 in principal
 amount of debentures and 1,004,603 shares of its common stock of the
 aggregate par value of \$100,460,300.

The application was filed with the Commission on July 2,
 1953. Thereafter, a public hearing was held before Examiner Coleman
 in San Francisco on July 21, 1953, at which time the matter was taken
 under submission. The Commission has received no protests in this
 proceeding.

It is applicant's intention to offer the debentures for sale at competitive bidding during September of this year, the successful bid to specify the rate of interest, and to offer the shares of stock during March of 1954 to the holders of its presently outstanding shares of preferred and common stock, for subscription and sale for cash at par, on the basis of one new share of common stock for each seven shares standing in the name of each shareholder of record on a date hereafter to be fixed by applicant's board of directors. The testimony given in the proceeding indicates the effect on applicant's capital ratios of the proposed issues as follows:

	<u>June 30, 1953</u>	<u>Dec. 31, 1953</u>	<u>Mar. 31, 1954</u>
Debentures	36.5%	38.8%	38.0%
Notes	6.0	5.7	3
Total debt	<u>42.5</u>	<u>44.5</u>	<u>38.3</u>
Preferred stock	6.4	6.2	6.1
Common stock and surplus	<u>51.1</u>	<u>49.3</u>	<u>55.6</u>
Totals	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Applicant desires to use the proceeds to be received from the issue and sale of its debentures and shares of common stock for the reimbursement of its treasury for moneys heretofore expended for capital purposes from sources other than the sale of securities. It reports that it has need for such reimbursement in order to repay outstanding bank loans and to provide for its construction costs and those of its subsidiary, Bell Telephone Company of Nevada. The record shows that as of June 30 applicant was indebted to banks in the principal amount of \$76,000,000 and that it anticipates an increase in its bank borrowings to \$98,000,000 at the close of September of this year. Following a partial liquidation of the amount through the issue and sale of the debentures in September, applicant plans additional borrowings as it proceeds with its construction program, and it estimates that it will be indebted to banks in the amount of \$105,000,000 by the time it makes its stock offering next

March. In this connection it appears that applicant's 1953 gross construction expenditures will amount to \$232,952,000 and its 1954 expenditures to \$224,443,000.

We are cognizant of the extent to which applicant has been required to increase its investment in its properties since the close of the war and are aware of the fact that it has been called upon, and will be called upon, to raise a substantial amount of money from external sources in meeting its capital requirements. With the volume of expansion facing applicant, it is obvious that a large part of its requirements must be met with equity funds in order that it might preserve and improve its capital ratios. The issue and sale of shares of common stock, as proposed in this proceeding, should place applicant in a position where it will be able to engage readily in debt financing in the future should that become necessary or desirable.

Upon the record made in this matter we will enter an order approving applicant's requests. In making this order, however, we wish to place applicant upon notice that we will not regard the dividends paid on its shares of common stock as determining or fixing the rate of return it should be allowed to earn on its investment in its properties.

ORDER

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the debentures and the shares of common stock herein

authorized is reasonably required by applicant for the purposes specified herein, and that such purposes, except as otherwise authorized, 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, on and after the effective date hereof and on or before March 31, 1954, may offer 1,004,603 shares of its common stock for subscription and sale, for cash at \$100 a share, to the holders of its outstanding shares of preferred and common stock in the proportion of one common share for each seven preferred and/or common shares standing in the name of each shareholder of record on the stock books of applicant at the close of business on a date to be fixed hereafter, and upon receipt by applicant of subscriptions properly executed and the necessary funds, to issue certificates for the appropriate number of shares.

2. The Pacific Telephone and Telegraph Company, on and after the effective date hereof and on or before December 31, 1953, may execute and deliver an indenture to be dated September 15, 1953, in substantially the same form as that filed in this proceeding as Exhibit D, and may issue and sell \$50,000,000 in principal amount of Thirty-one Year Debentures due September 15, 1984, at a price to be fixed by the Commission in a supplemental order in this proceeding.

3. The Pacific Telephone and Telegraph Company shall use the proceeds to be received from the issue and sale of said shares of stock and debentures, other than accrued interest, for the purposes set forth in this application. The accrued interest may be used for general corporate purposes.

4. The Pacific Telephone and Telegraph Company shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order. As soon as available, applicant shall file three copies of each prospectus issued in connection with the debentures and shares of stock authorized by this order.

5. The authority herein granted to issue and sell debentures will become effective when the Commission by a supplemental order has fixed the price at which they may be sold, and when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$15,500.00. In other respects, the authority herein granted will become effective 20 days after the date hereof.

Dated at San Francisco, California, this 28th day of July, 1953.

[Signature]
President
Justin J. Casner
Harold Hill
Bennett Patten
Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.