

ORIGINAL

Decision No. 50554

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 \$50,000,000 principal amount )  
 of Thirty-five Year \_\_\_\_\_% Debentures )  
 due November 15, 1989, and authorizing )  
 it to execute and deliver an indenture )  
 to be dated November 15, 1954. )  
 ----- )  
 :

Application  
No. 35755

OPINION AND ORDER

The Pacific Telephone and Telegraph Company has filed this application for authorization to execute an indenture defining the terms of a proposed new issue of debentures and for authorization to sell \$50,000,000 in principal amount of said debentures. The interest rate and the price will be determined by competitive bidding.

The purpose of the proposed financing is to refund a presently outstanding issue of \$50,000,000 of 4% debentures which were sold during September of last year under authorization granted by the Commission by Decision No. 48874, dated July 28, 1953, and Decision No. 49057, dated September 15, 1953. It appears that because of the decline in interest rates since the time said 4% debentures were sold, applicant should be able to realize savings in annual fixed charges by refunding the 4% issue at this time through the issue of lower interest-bearing securities, although the extent of such savings, of course, cannot be ascertained until the interest rate and the selling price of the new issue are fixed upon the opening of the bids and the awarding of the contract for the purchase.

At the prevailing call price for the 4% debentures, applicant will be called upon to pay redemption premiums of \$2,850,000. In order to avoid writing off this amount to its surplus account at once, along with related expenses, estimated at \$25,000, and the premiums now on the books pertaining to said 4% debentures, applicant proposes to enter these amounts in a deferred debit account and to amortize the balance by charges to income over the period from January 1, 1955, to and including August 31, 1984. It appears that applicant will realize a substantial nonrecurring reduction in taxes on income during 1954 in the estimated amount of approximately \$1,077,000 as a result of the payment of the redemption premiums and other items and that it proposes to set up this amount as a credit against the sum so to be amortized, with a concurrent charge to miscellaneous income deductions.

For accounting purposes we have no objection to the manner in which applicant proposes to record on its books the redemption payments and the related expenses, premiums and tax savings. Upon a review of this application we are of the opinion that a public hearing is not necessary, that the money, property or labor to be procured or paid for by the issue and sale of the debentures herein authorized is reasonably required by applicant for the purpose specified herein, which purpose, except as otherwise authorized, is not, in whole or in part, reasonably chargeable to operating expenses or to income, and that the application should be granted; therefore,

IT IS HEREBY ORDERED as follows:

1. The Pacific Telephone and Telegraph Company may execute an indenture, in, or substantially in, the same form as that filed in this proceeding as Exhibit C, and, for the purpose set forth in the application, may issue and sell \$50,000,000 in principal amount of its debentures on or before December 31, 1954, at competitive bidding at

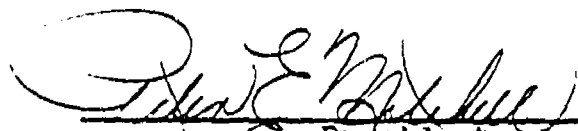
the price offered in the bids received by it which will result in the lowest annual cost of money. The accrued interest to be received may be used for said purpose or for general corporate purposes.

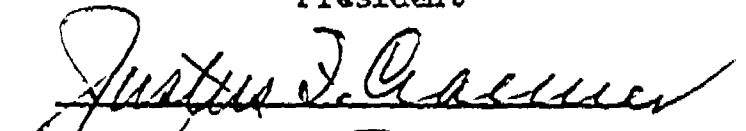
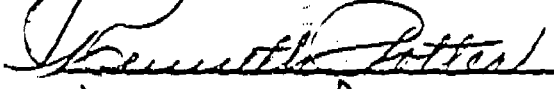

2. Immediately upon awarding the contract for the sale of said \$50,000,000 of debentures, The Pacific Telephone and Telegraph Company shall file a report with the Commission showing, as to each bid received, the name of the bidder, the price, the interest rate and the cost of money to applicant based on such price and interest rate.

3. The Pacific Telephone and Telegraph Company shall file a report with the Commission, on or before January 31, 1955, showing the date on which it sold the debentures under the authorization herein granted, the price, and the names to whom sold, together with a statement of the purpose for which the proceeds were used.

4. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 21<sup>st</sup> day of September, 1954.

  
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President

  
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Commissioners