A.37051 MMW

Decision No. 51731

ORIGINAL

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 $67,000,000 principal amount of Thirty-six Year ____% Debentures due August 15, 1991, (b) to execute and deliver an Indenture to be dated August 15, 1955, and (c) to issue 1,339,196 common shares for subscription and sale for cash at $100 per share to the holders of its preferred and common shares.	Application No. 37051

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, for Washington Public Service Commission, interested party.

O P I N I O N

In this application The Pacific Telephone and Telegraph Company seeks authorization to issue and sell $67,000,000 principal amount of Thirty-six Year Debentures due August 15, 1991, to execute and deliver an indenture, and to issue and sell 1,339,196 shares of its common stock of the aggregate par value of $133,919,600.

The application was filed with the Commission on June 21, 1955. Thereafter, a public hearing was held before Examiner Coleman in San Francisco on July 6, 1955, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Presently, applicant has outstanding capital stock in the aggregate amount of $803,518,000, consisting of $82,000,000 of preferred stock and $721,518,000 of common stock, divided into shares of the par value of $100 each. According to the testimony, American Telephone and Telegraph Company owns 78.17% of the outstanding preferred shares and 90.89% of the outstanding common shares, its combined stock ownership amounting to 89.59% of all outstanding shares, and other shareholders, numbering 11,810, own the remaining 10.41%. Applicant has paid cumulative dividends on its preferred shares at the rate of 6% per annum and, for a number of years, annual dividends on its common stock at the rate of 7% per annum.

A consolidated statement of applicant's assets and liabilities as of May 31, 1955, is as follows:

Assets		
Telephone plant, less reserves		$1,519,806,251
Other investments		1,688,883
Current assets -		
Cash and deposits	$ 22,130,358	
Accounts receivable	70,779,406	
Materials and supplies	25,147,927	
Total current assets		118,057,691
Prepaid accounts		16,062,486
Deferred charges		3,194,934
Total		$1,658,810,245
Liabilities and Capital		
Debentures		$ 515,000,000
Current liabilities -		
Notes payable	$136,050,000	
Accounts payable	66,400,099	
Accrued liabilities	69,748,798	
Total current liabilities		272,198,897
Deferred credits		5,470,611
Preferred stock		82,000,000
Common stock equity -		
Common stock	721,518,000	
Surplus	62,622,737	
Total common stock equity		784,140,737
Total		$1,658,810,245

Generally speaking, it has been applicant's practice to finance itself temporarily with funds raised from internal sources and with short-term bank borrowings and, from time to time, to reimburse its treasury and to refinance its short-term debt with proceeds from the sale of debentures and shares of common stock. Since 1945, according to Exhibit 4, it has issued and sold $440,000,000 in principal amount of its debentures and $475,393,000 aggregate par value of common stock.

In the present proceeding applicant reports expenditures for capital purposes of $491,594,875 for which it has not been reimbursed through the issue and sale of permanent securities, the amount having been provided by moneys represented by reserves, by earnings from operation, and by current accounts. In addition, it reports that as of the date of the balance sheet it had incurred short-term 3% bank loans of $136,050,000 and that it expects it will increase such borrowings to $172,000,000 by the end of August of this year. In this connection it shows, in Exhibit 2, that it is engaged in a construction program which will call for expenditures on its system and on the system of Bell Telephone Company of Nevada, its wholly-owned subsidiary, during 1955 and 1956, of the following amounts:

	1955	1956
Right of way	$ 730,000	$ 728,000
Land and buildings	21,947,000	29,705,000
Central office equipment	72,687,000	110,381,000
Station equipment	104,636,000	111,642,000
Exchange lines	73,456,000	72,370,000
Toll lines	12,864,000	15,160,000
General equipment	17,789,000	13,323,000
Totals	$304,109,000	$353,309,000

Applicant seeks to use the proceeds from its presently proposed financing to reimburse its treasury for expenditures heretofore made for capital purposes and, through such reimbursement, to obtain funds to repay its temporary bank loans and to enable it to continue with its construction activities. It intends to market its securities by the same means it has followed in the past and to offer the $67,000,000 of debentures for sale at competitive bidding during August of this year, the successful bid to specify the rate of interest, and to offer the 1,339,196 shares of common stock during September to the holders of its presently outstanding shares of preferred and common stock, pursuant to their preemptive rights, for subscription and sale, for cash at par, on the basis of one new share of common stock for each six shares standing in the name of each shareholder of record on the stock books of applicant at the close of business on a date hereafter to be fixed by applicant's board of directors. The testimony given in this proceeding shows the effect of the financing on applicant's capital ratios as follows:

	Dec. 31, 1954	Pro Forma Dec. 31, 1955
Debt capital	41.6%	38.1%
Preferred stock	5.6	5.0
Common stock and surplus	52.8	56.9
Totals	100.0%	100.0%

This company has been before the Commission on numerous occasions during the last 10 years for authorization to issue securities and to increase rates, and the Commission is familiar with its construction program and with the demands for service with which it is faced. From a review of the information before us, it clearly is apparent that applicant has made expenditures for plant, well in excess of the proposed security issues, for which it has not been reimbursed with funds from permanent capitalization. It is equally apparent that applicant will have need for the proceeds which it will receive from the two proposed offerings to liquidate its outstanding short-term indebtedness, to improve its cash position, and to enable it to proceed with the expansion of its plant and facilities. With the volume of construction facing applicant it is obvious that a large part of its requirements must be met with equity funds in order that it might establish and preserve an elastic capital structure which will enable it to obtain additional capital in the future under favorable terms.

Upon the record made in this matter we will enter an order approving applicant's requests. In selling the shares of stock at par when the market is above par, applicant's vice president and comptroller stated that such action would not affect the rate of return applicant would be entitled to receive on its investment in plant and property and hence the service rates the customers would be asked to pay. Furthermore, in making this order we place applicant on notice that we will not regard the dividends paid on its shares of common stock as determining or fixing the rate of return which applicant should be allowed to earn on its investment in plant.

O R D E R

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 and sale of the debentures and shares of 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 December 31, 1955,

may execute and deliver an indenture to be dated August 15, 1955, in substantially the same form as that filed in this proceeding as Exhibit D, and may issue and sell $67,000,000 in principal amount of Thirty-six Year Debentures due August 15, 1991, at competitive bidding at the price which will result in the lowest annual cost of money to applicant.

2. The Pacific Telephone and Telegraph Company, on and after the effective date hereof and on or before December 31, 1955, may offer to the holders of its preferred and common shares 1,339,196 shares of its common stock for subscription and sale, for cash at $100 a share, in the proportion of one new common share for each six 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 hereafter to be fixed and, upon receipt by applicant of subscriptions properly executed, together with the necessary funds, to issue certificates for the appropriate number of shares.

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 such purposes or for general corporate purposes.

4. Immediately upon awarding the contract for the sale of said $67,000,000 of debentures, The Pacific Telephone and Telegraph Company shall file a written report with the Commission showing, as to each bid received, the name of the bidder, the amount of the bid, the interest rate and cost of money to applicant based upon such price and interest rate, and the name of the bidder to whom the contract for the sale of the debentures was awarded.

5. Within 30 days after the issue and sale of the debentures under the authorization herein granted, The Pacific Telephone and Telegraph Company shall file a report with the Commission showing the date on which such debentures were sold, the names of those to whom sold, the amount sold to each and the consideration received, and within 30 days after the closing date of subscriptions for the shares of stock herein authorized to be issued, applicant shall file with the Commission a report showing the number of shares of stock subscribed for by American Telephone and Telegraph Company, the number of shares of stock subscribed for by others, the consideration received, and the purposes for which the proceeds were expended.

6. As soon as available, The Pacific Telephone and Telegraph Company shall file with the Commission three copies of its prospectus.

7. The authority herein granted to issue debentures will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $19,750. In other respects the authorization herein granted will become effective on the date hereof.

Dated at San Francisco, California, this 26th day of July, 1955.

Justus F. Craemer
~~President~~

Ray E. Untereiner

Matthew J. Dooley

R. Hardy

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
6686
JUL 26 1955
$19,750.00
BY B.M.

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