A. 37583 CB

ORIGINAL

Decision No. 52465

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of General Telephone Company of California for an Order exempting from the competitive bidding rule in Decision No. 38614, as amended by Decision No. 49941, the proposed issuance and sale of a new issue of shares of Cumulative Preferred Stock, a new issue of Debentures, and a new issue of Serial Notes.	Application No. 37583

Harry L. Dunn, of O'Melveny & Myers, for applicant.

O P I N I O N

In this application the Commission is asked to make an order exempting from competitive bidding proposed issues by General Telephone Company of California of $14,377,240 par value of 4½% preferred stock, $15,000,000 in principal amount of debentures, and $5,000,000 in principal amount of serial notes.

A public hearing was held before Examiner Coleman in San Francisco on January 4, 1956, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

The purpose of the proposed financing, if and when consummated, is to provide applicant with funds to retire $28,754,480 par value of its presently outstanding 5% preferred stock and to reimburse its treasury for monies actually expended from income, or from other internal sources, which were not secured by or obtained from the issue of securities for the acquitition of property. In Exhibit B applicant sets forth its capital requirements and its expected proceeds as follows:

Particulars	Refund 5% 1947 Series Pref. Stock	Additions to Plant	Total
Funds Provided:			
From sale of notes and debentures at par	$20,000,000	$ -	$20,000,000
From sale of new series of 4-1/2% preferred stock -			
584,000 shares @ $20	11,680,000		
134,862 shares @ $20		2,697,240	
718,862 shares to be issued			14,377,240
Total funds provided	$31,680,000	$2,697,240	$34,377,240
Application of Funds:			
To retire 1,437,724 shares of 5% 1947 Series of Preferred Stock @ $22	$31,629,928	$ -	$ -
Estimated expense of retirement	50,072	-	31,680,000
To reimburse treasury for funds expended for capital additions		2,697,240	2,697,240
Total funds applied	$31,680,000	$2,697,240	$34,377,240

Presently applicant has outstanding, among other things, an issue of 1,437,724 shares of 5% preferred stock of the par value of $20 each and of the aggregate par value of $28,754,480.[1/] It has

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1/ In exhibits filed in this proceeding, applicant reports its net investment in telephone plant and equipment at the close of October, 1955, in the amount of $186,293,555 and its capital structure as follows:

Bonds	$ 71,618,000
Bank loans	2,000,000
Preferred stock	34,360,720
Common stock and surplus	73,555,066
Total	$181,533,786

concluded that conditions are favorable to the issue of a lower dividend rate preferred stock and that it can realize annual savings in income taxes and fixed charges by refunding the 5% issue with monies obtained in part by the issue of a 4½% preferred stock, and in part with borrowed money. In Exhibit B it estimates its annual savings during the first year in the amount of $566,000 and in increasing amounts thereafter as the borrowed money is repaid.

With respect to the application so far as it involves the reimbursement of the treasury, applicant shows that up to October 31, 1955, it has expended for plant additions the sum of $50,692,352 which was not provided through the issue of permanent securities but which was financed, generally speaking, with depreciation monies and retained earnings. It is applicant's intention that the amounts so reimbursed will become a part of the general treasury funds and that it will use an amount at least equal to the amount of any such reimbursement to finance, in part, its continuing construction program. In this connection it reports that during 1956 its gross construction expenditures will amount to $51,500,000, and during 1957 to $55,000,000.

If authorized by the Commission, applicant intends to dispose of its new securities through negotiation with prospective purchasers rather than by means of competitive bidding. At the outset applicant proposes to offer the holders of the present 5% shares the opportunity to surrender one-half of their holdings in exchange for new 4½% shares upon a share-for-share basis plus the payment to them of $1.50 in cash for each share so surrendered for exchange. In addition, the holders of the outstanding 5% stock would have the privilege of exchanging additional shares to the extent that such new shares may not be subscribed by others. Applicant also intends to make an agreement with a group of underwriters for the sale of any shares not taken by shareholders. Under the terms of this agreement the offering price to the public of such unexchanged shares would be $20.50 each, with the underwriters and dealers being paid a commission or discount of not to exceed 50¢ a share. Applicant proposes to dispose of the debentures and serial notes by private placement with a selected group of banks and other investment institutions. It has not, however, determined the final terms and conditions of all of the new securities and does not at this time seek an order authorizing their issue.

From the testimony it appears that the success of the refunding operations depends on a successful sale of all three classes of securities and that it therefore is necessary that the details of each offering be coordinated and arranged so that the terms and conditions of each security be approved by the respective purchasers of the other securities in order that the required funds may be made available as needed and that all of the securities may be issued and paid for, either through the exchange of outstanding shares or the payment of cash, on a certain specified date. Applicant is of the opinion that these arrangements could not be made nor these purposes accomplished if competitive bidding were to be required for any one or all of the proposed offerings. The record shows that in the past applicant has attempted to dispose of preferred shares by means of competitive bidding and did not receive bids, but that it has been successful in disposing of its preferred shares by negotiated arrangements. As to the debentures and serial notes, these constitute new classes of securities not now on the market.

Upon a review of the record it appears that we are warranted in making an order granting applicant the exemption it has requested.

At a later date, upon the filing of further information by applicant, we will give consideration to the form and terms of the proposed securities and the purposes for which the proceeds from them will be used.

O R D E R

A public hearing having been held in the above entitled matter and the Commission having considered the evidence, and being of the opinion that the application should be granted; therefore,

IT IS HEREBY ORDERED as follows:

1. The issue by General Telephone Company of California of not exceeding \$14,377,240 par value of 4½% preferred stock, \$15,000,000 in principal amount of debentures, and \$5,000,000 in principal amount of serial notes hereby is exempted from the requirements of the Commission's competitive bidding rule.

2. This order is effective upon the date hereof.

Dated at San Francisco, California, this 16th day of January, 1956.

Peter E. Mitchell
President

Justus F. Craemer

Ray E. Untereiner

Rex Hardy

Commissioners

Commissioner Matthew J. Dooley, being necessarily absent, did not participate in the disposition of this proceeding.