

ORIGINAL

Decision No. 51174

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of General Telephone Company of
California for authority to issue
and sell 500,000 shares of 5%
Cumulative Preferred Stock,
without competitive bidding.

Application No. 38545

O'Melveny & Myers, by Harry L. Dunn
and R. E. Clark, for Applicant.

O P I N I O N

General Telephone Company of California has filed this application for authorization to issue and sell 500,000 shares (\$10,000,000 par value) of its 5% Cumulative Preferred Stock.

The application was filed with the Commission on November 1, 1956, and came up for public hearing before Examiner Coleman in Los Angeles on November 15, 1956, at which time it was taken under submission. The Commission has received no protests in the proceeding.

The purpose of the proposed financing is to provide applicant with funds to pay for the acquisition of property, for the construction, completion, extension and/or improvement of facilities, for the improvement and maintenance of service, for the discharge of indebtedness to banks which may have been incurred at the time of the sale of said shares of stock, and/or for the reimbursement of the treasury. The record shows that at September 30, 1956, applicant's temporary bank borrowings amounted to \$2,000,000 and that its capital expenditures, which had not been financed through the issue of more permanent securities, amounted to \$51,617,748.

The record further shows that applicant for a number of years has been engaged in a continuing construction program to meet the demands of its subscribers for service, that it has utilized treasury funds in providing its capital requirements, and that it now has need for funds from external sources to replenish its treasury, to improve its current position and to enable it to move forward with its construction activities. In Exhibit B, as amended, applicant reports that during 1957 it will be called upon to spend \$71,822,000 for new construction, as follows:

Buildings	\$ 3,657,000
Central office equipment	17,867,000
Station equipment	15,714,000
Outside plant	25,590,000
Franchises, right of way land, general equipment	3,518,000
Work in progress	<u>5,476,000</u>
Total	<u><u>\$71,822,000</u></u>

A substantial portion of the requirements will be met with internal funds. However, applicant will find it necessary to issue and sell not only the preferred shares covered by this application but, at a later date, to issue and sell bonds and shares of common stock. Applicant's capital ratios as of September 30, 1956, and as adjusted to give effect to the issue of the \$10,000,000 of preferred stock, are as follows:

	<u>September 30</u> <u>1956</u>	<u>As Adjusted</u>
Bonds	41.87%	40.33%
Other debt	9.78	8.54
Preferred stock	9.13	13.20
Common stock equity	<u>39.22</u>	<u>37.93</u>
Total	<u><u>100.00%</u></u>	<u><u>100.00%</u></u>

Subject to receiving authorization from the Commission, applicant plans to dispose of its shares of preferred stock by means of a negotiated sale and accordingly it requests the Commission to

exempt the offering from its competitive bidding rule. Testimony offered in support of this request shows that in November, 1947, applicant solicited bids for the sale of 150,000 shares of its 5% preferred stock, that no bids were received but that later in 1947 and thereafter on eight occasions applicant was successful in disposing of preferred stock offerings under negotiated arrangements. It appears that applicant has sold its preferred shares, at prices substantially the same as prevailing market prices, under and pursuant to the terms of underwriting agreements granting underwriters the option to purchase shares from time to time within specified periods for resale to the public.

Applicant asserts that as a result of the option arrangements for selling its shares it has obtained better prices than it would have obtained under an outright sale, either competitive or negotiated, and that its sales have been spread over a longer time, thus eliminating to some extent the accumulation of idle funds, and that the issues have been placed largely in applicant's service areas and with individuals rather than with institutions. It appears that in general the same underwriters have handled the several transactions in the past and that it is contemplated they will do so in the present financing and under similar terms.

From a review of this matter it clearly appears that applicant has been able to dispose of its preferred shares under satisfactory terms in the past, and with no adverse effect on the public, and we see no reason for withholding authorization from it to continue with its preferred stock financing at this time under similar arrangements. Moreover, it seems quite likely that under market

conditions presently prevailing a better price can be obtained by negotiation than by competitive bidding.

Applicant is not in a position at this time to indicate the price at which it will sell its shares and accordingly it now seeks only a preliminary order. At a later date it will file a supplemental application setting forth the agreed price and the terms of the sale.

The authorization herein granted is not to be considered as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

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 of the stock herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. The issue and sale by General Telephone Company of California of 500,000 shares of 5% Cumulative Preferred Stock hereby is exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, provided applicant receives for said shares a price satisfactory to the Commission.

2. General Telephone Company of California, after the effective date hereof and on or before June 30, 1957, may issue and sell said 500,000 shares at a price to be fixed in a supplemental order.

3. General Telephone Company of California shall use the proceeds to be received from the issue and sale of said shares for the purposes set forth in this application.

4. The authority herein granted to issue and sell shares of preferred stock will become effective when the Commission by supplemental order has fixed the price at which they may be sold. In other respects, the authority herein granted is effective upon the date hereof.

5. General Telephone Company of California shall file with the Commission, as soon as available, three copies of its prospectus and a report showing the names of those to whom said shares were sold, the number of shares sold to each and the consideration received.

Dated at Los Angeles, California, this 4th day of DECEMBER, 1956.

[Signature]
 President

[Signature]

[Signature]

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 Commissioners