Decision No. 55188

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 $90,000,000 principal amount of Twenty-three Year ___% Debentures due August 1, 1980, (b) to execute and deliver an Indenture to be dated August 1, 1957, and (c) to offer 1,822,523 common shares for subscription and sale for cash at $100 per share to the holders of its preferred and common shares.

Application No. 39093

Arthur T. George, for applicant.

O P I N I O N

The Pacific Telephone and Telegraph Company has filed the above-entitled application for authorization (1) to issue and sell $90,000,000 principal amount of debentures, (2) to execute and deliver an indenture defining the terms thereof, and (3) to issue and sell 1,822,523 shares of common stock of the aggregate par value of $182,252,300.

The application was filed on May 27, 1957. A public hearing was held before Commissioner Dooley and Examiner Coleman in San Francisco on June 18, 1957, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

This company has come before the Commission on numerous occasions, in applications similar in form to the one now under review, for authorization to issue and sell debentures and common stock to finance the cost of property. At this time, it once again seeks to employ the same methods it has used in the past in disposing of its securities and it proposes, upon receiving the requisite regulatory approval, to put up its debentures for sale at competitive bidding, the winning bid to determine the interest rate, and to offer the common shares to the holders of its presently outstanding shares of preferred and common stock, pursuant to their preemptive rights, for subscription and sale, at par for cash, on the basis of one new share for each six standing in the name of each shareholder of record on the stock books of the company at the close of business on a date hereafter to be selected by applicant's board of directors. According to Exhibit 2, the presently outstanding stock consists of 820,000 shares of preferred and 10,115,142 shares of common, of which American Telephone and Telegraph Company owns 89.61%.

The purpose of the proposed financing is to reimburse applicant's treasury for moneys actually expended from income, and other treasury funds, for the acquisition of property and for the construction, completion, extension and improvement of its facilities and of those of Bell Telephone Company of Nevada, its wholly-owned subsidiary. The record shows, in Exhibit F, capital expenditures of $584,303,502 as of March 31, 1957, which had not been paid or provided through the issue and sale of permanent securities but which had been financed, in general, with moneys represented by reserves, retained earnings and current accounts.

As to the necessity for the replenishing of the treasury in the amounts now requested, applicant reports that it, and its subsidiary, had outstanding short-term loans aggregating $125,000,000 on March 31, 1957, that it is expected that such loans will increase to $227,000,000 by the end of August, when the debenture proceeds will become available, and that thereafter additional borrowings will be made. It is estimated that the stock proceeds will be received during September and will be utilized to discharge the remaining loans existing at that time but that, even so, there will be additional loans which applicant will be required to make during the last two months of the year which will amount to $54,000,000. In this connection, applicant reports in Exhibit 3, estimated gross construction expenditures of $404,667,000 during 1957 and it estimates that approximately $160,000,000 of the funds thus required will be available from internal sources.

Upon a review of the evidence it is clear that applicant has had unreimbursed capital expenditures well in excess of the proposed security issues, that it is entitled to and has need for the reimbursement of its treasury in the amounts now requested in order to obtain funds to liquidate its short-term borrowings, to improve its cash position and to enable it to proceed with the expansion of the telephone facilities. When consideration is given to the large volume of construction work which applicant will be required to perform in order to meet its service requirements, it is obvious that it must resort to equity financing, as well as debt financing, if it is to maintain a capital structure sufficiently flexible to permit it to obtain additional capital, under favorable terms, when and as needed under whatever market conditions may prevail in the future. Applicant's capital ratios as of December 31, 1956, and as estimated as of December 31, 1957, giving effect to the proposed financing, are as follows:

	December 31, 1956	Pro forma December 31, 1957
Debt	37.7%	36.8%
Preferred stock	4.3	3.7
Common stock equity	58.0	59.5
Total	100.0%	100.0%

Applicant has long been an exponent of par offerings to its shareholders pursuant to their preemptive rights. Exhibit 6 shows that there have been nine such offerings since 1945, which have produced in excess of $765,389,200 of equity money, and it is apparent that applicant will be required to go to its shareholders from time to time in the future for still more funds. It is apparent that the amount of paid-in capital would be the same if the 1,822,523 shares were to be sold at par or a lesser number at a price higher than par. Its vice president and comptroller testified that the sale of stock at par when the market is above par does not affect the rate of return which the company is entitled to receive on its investment in operative property and hence does not affect the rates which customers would be asked to pay for service.

The record in this proceeding warrants the making of an order approving applicant's requests. In making such an order we again state the position we have taken in the past that we do not regard dividends paid on the shares of stock as determining or fixing the rate of return applicant should be allowed to earn on its rate base. The authorization herein granted is for the issue of securities only and is not to be construed 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 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 January 31, 1958, may execute and deliver an indenture to be dated August 1, 1957, in substantially the same form as that filed in this proceeding as Exhibit D, and may issue and sell $90,000,000 in principal amount of Twenty-three Year Debentures due August 1, 1980, 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 January 31, 1958, may offer to the holders of its preferred and common shares, 1,822,523 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 $90,000,000 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 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 $25,500. In other respects, the authorization herein granted will become effective on the date hereof.

Dated at San Francisco, California, this 2nd day of JULY, 1957.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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BY

President

Commissioners