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Decision No. 55222

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. 39074

Harlan W. Holmwood, R. K. Chase and O'Melveny & Myers, by Harry L. Dunn, 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 cumulative preferred stock.

The application was filed with the Commission on May 15, 1957, and came up for public hearing before Examiner Coleman in San Francisco on June 20, 1957, at which time it was taken under submission. The Commission has received no protests in the proceeding.

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 on a number of occasions in the past applicant has disposed of its shares of preferred stock at prices substantially the same as prevailing market prices, under and pursuant to the terms of negotiated 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 a better price was obtained than would have been the case under an outright sale, either competitive or negotiated, and the issues were 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.

Should applicant be successful in selling its shares, it proposes to use the proceeds to pay for the acquisition of property and the construction, completion, extension and/or improvement of facilities, to provide for the improvement and maintenance of service, to discharge indebtedness to banks which may have been incurred at the time of the sale of said shares of stock, and/or to reimburse its treasury. The record shows that at March 31, 1957, applicant's temporary bank borrowings amounted to $7,000,000 and that its capital expenditures, which had not been financed through the issue of permanent securities, amounted to $36,806,820.

The record further shows that for a number of years applicant has been engaged in a continuing construction program to meet the demands of its subscribers for service and that during

1957 it will be called upon to spend $72,015,000 for new construction and $12,600,000 to pay indebtedness, a total of $84,615,000. Applicant reports its estimated sources of funds to meet its requirements as follows:

Income		16,404,000
Salvage recoveries		1,880,000
Current accounts and miscellaneous		2,541,000
Sales of securities (net)		
Bonds	$19,920,000	
Preferred stock	18,900,000	
Common stock	24,970,000	63,790,000
Total		$84,615,000

Heretofore, during 1957, applicant has sold $20,000,000 of bonds, $10,000,000 of 5% preferred stock and $25,000,000 of common stock. Its capital ratios, giving effect to recent sales and to the proposed issue, are as follows:

First mortgage bonds	39.16%
Other long-term debt	6.59
Preferred stock	14.03
Common stock and surplus	40.22
Total	100.00%

From a review of the application and of the company's financial statements, it is apparent that applicant has made capital expenditures well in excess of the proposed stock issue for which it has not been reimbursed through the issue of permanent securities, that it is entitled to reimburse its treasury because of such funds so expended, and that it will have need for the proceeds from the sale of the shares of preferred stock, which are not needed to pay short-term notes, to replenish its treasury and to enable it to proceed with its construction activities. 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 negotiated arrangements. Moreover, it seems quite likely that under market conditions presently prevailing a better price can be obtained by negotiation than by competitive bidding.

Although the title of this application refers to a 5 per cent dividend, it appears that, in the light of current conditions developing since the filing of the matter, applicant may not be able to sell 5 per cent stock. In any event, applicant has not completed its arrangements for the sale of its shares and, at a later date, it will file a supplemental application setting forth the dividend rate, redemption prices, and liquidation preferences, and the exact terms and conditions under which it proposes to dispose of its shares. Accordingly, we will enter only a preliminary order at this time.

The authorization herein granted relates only to the issue of stock 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 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 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 December 31, 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 San Francisco, California, this 9th day of JULY, 1957.

President

Commissioners

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