

ORIGINAL

Decision No. 57431

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 \$80,000,000 principal amount of Thirty-two Year % Debentures due November 1, 1990, (b) to execute and deliver an Indenture to be dated November 1, 1958, and (c) to offer 1,594,604 common shares for subscription and sale for cash at \$100 per share to the holders of its preferred and common shares.

Application No. 40372

A. T. George, for applicant;
Edward L. Blincoe, in propria
persona, protestant.

O P I N I O N

In this application the Commission is asked to make its order authorizing The Pacific Telephone and Telegraph Company (1) to issue and sell \$80,000,000 principal amount of debentures, (2) to execute and deliver an indenture and (3) to issue and sell 1,594,604 shares of its common stock of the aggregate par value of \$159,460,400.

The application was filed on August 22, 1958. A public hearing, after due notice, was held before Examiner Coleman in San Francisco on September 22, 1958, at which time the matter was taken under submission.

Sale of Securities

Under the provisions of applicant's Articles of Incorporation the holders of the presently outstanding shares of stock, both preferred and common, have the pre-emptive right to subscribe to any new issues of common shares.

Accordingly, applicant proposes to offer the 1,594,604 shares of common stock at par to the holders of its outstanding preferred and common shares in the proportion of one new common share for each eight preferred and/or common shares outstanding in the name of each shareholder of record on the stock books of applicant at the close of business on a date to be fixed by the board of directors.^{1/}

The company proposes to invite bids for the purchase of the \$80,000,000 of debentures, the winning bid to determine the interest rate. The debentures are to be issued under a new indenture to be dated November 1, 1958, between applicant and The Bank of California, National Association, as trustee. They will be dated November 1, 1958, will mature November 1, 1990, and will be redeemable at the option of the corporation, as a whole or in part, on any date prior to maturity, upon at least 30 days' notice, up to and including October 31, 1960, at a price five points above the public offering price and thereafter at annually reducing premiums.

1/

According to Exhibit 1, the American Telephone and Telegraph Company presently owns 89.61% of applicant's outstanding shares of stock.

It is estimated that the sale of the debentures will be completed in November and of the common shares in December.

Use of Proceeds

Applicant proposes to use the proceeds to be received from the issue of its debentures and stock for the purpose of reimbursing its treasury, to the extent such proceeds are sufficient, for moneys actually expended since October 31, 1922, from income or other treasury funds of applicant and its subsidiary for the acquisition of property and for the construction, completion, extension and improvement of facilities. Applicant reports that as of June 30, 1958, such unreimbursed expenditures amounted to \$602,085,536.48, the amount having been paid or provided for primarily with money represented by reserves, retained earnings and current accounts.

Applicant at this time does not seek full reimbursement. It asserts that it has need for cash through the issue of the securities covered by this application in order to repay outstanding temporary loans from American Telephone and Telegraph Company, to provide for extensions, additions and improvements to its telephone and telegraph plant and to provide funds for similar requirements of its subsidiary, Bell Telephone Company of Nevada, and for other corporate purposes. It reports as of June 30, 1958, that its short-term borrowings from its parent company amounted to \$206,000,000 and it estimates that, in the absence of permanent financing, it would owe \$262,000,000 by the end of 1958. Following

the sale and issue of common shares and debentures, however, it is anticipated that its borrowings will be reduced to approximately \$23,000,000.

Capital Structure

According to the record, the company has endeavored, by alternating debt and stock financing, to maintain a capital structure with a debt ratio at a level considered by it as prudent, in view of its continuing large amount of construction. Applicant reports that in 1955 it sold \$200,842,000 of stock and debentures, in 1956, \$234,154,000, in 1957, \$272,169,000, and it estimates it will obtain approximately \$239,460,000 from its 1958 issues. Its capital ratios are shown as follows:

	<u>December 31, 1957</u>	<u>June 30, 1958</u>	<u>Pro Forma December 31, 1958</u>
Debt	37.6%	40.8%	35.3%
Preferred stock	3.7	3.5	3.4
Common stock and surplus	<u>58.7</u>	<u>55.7</u>	<u>61.3</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

It appears that upon conclusion of the present financing, applicant will again build up its debt ratio by borrowings as it proceeds with its 1959 construction program.

Protest

A ratepayer appearing in his own behalf, took exception to the issue, by applicant, of common stock in the amount and at the price indicated, alleging that the company's proposal will result in increased cost to the ratepayer. He requested that the Commission deny the company's request to issue common stock and that an examiner's report be issued so that exception could be taken prior to the issuance of the final decision by the Commission.

Conclusions

Upon a full consideration of the record, we are of the opinion that protestant's requests should be denied and that the application should be granted. In making our order herein we again place applicant on notice that we will not regard the dividends paid on its shares of stock as determining or fixing the rate of return it should be allowed to earn on its investment in plant and that the approval herein given 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. In the past, the Commission has excluded from applicant's rate base, as excessive, certain

payments made to the American Telephone and Telegraph Company and to Western Electric Company but because of the margin between applicant's uncapitalized expenditures, on the one hand, and the securities it intends to issue, on the other hand, there is no reason for modifying the amounts of the proposed issues. In its stock offering to its shareholders applicant should set forth this exclusion by the Commission from the rate base heretofore found reasonable.

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 through the issue of the shares of common stock and debentures herein authorized is reasonably required by applicant for the purpose specified herein; and that such purpose, except as otherwise authorized, is 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, after the effective date hereof and on or before April 30, 1959, may offer not to exceed 1,594,604 shares of its common stock for subscription and sale, for cash at \$100 a share, to the holders of its outstanding shares of preferred and common stock in the proportion of one common share for each eight 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 to be fixed hereafter. Upon receipt by applicant of subscriptions properly executed and the necessary funds, applicant may thereafter issue certificates for the appropriate number of shares.

2. The Pacific Telephone and Telegraph Company, after the effective date hereof and on or before April 30, 1959, may execute and deliver an indenture to be dated November 1, 1958, in substantially the same form as that filed in this proceeding as Exhibit C, and may issue and sell \$80,000,000 principal amount of Thirty-two Year Debentures due November 1, 1990, at a price which will result in the lowest annual cost of money to applicant.

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 purpose set forth in this application. The accrued interest may be used for said purpose or for general corporate purposes.

4. Immediately upon awarding the contract for the sale of said \$80,000,000 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 purpose 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 and sell debentures will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$23,000. In other respects, the authorization herein granted will become effective on the date hereof.

8. The request of protestant for an examiner's report is denied.

Dated at San Francisco, California, this 7th day of October, 1958.

E. Lynn Fox
President
W. E. [unclear]
Paul [unclear]
Michael [unclear]
Theodore [unclear]
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
14671
OCT 7 - 1958
BY