

ORIGINAL

Decision No. 65271

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 not to exceed \$25,000,000 principal amount of First Mortgage Bonds, Series O, Due May 1, 1993, to execute and deliver to Security First National Bank, as Trustee, an Indenture supplemental to the existing Indenture, as amended, securing said Company's bonded indebtedness, and to issue and sell 500,000 shares of its Common Stock.

Application No. 45292
Filed March 28, 1963
and Amendment
Filed April 3, 1963

O'Melveny & Myers, by Harry L. Dunn and Frederick N. Edwards, for applicant;
Edward L. Blincoe, individually and for Utility Users' League of California, interested party;
R. W. Russell, Chief Engineer and General Manager, Department of Public Utilities and Transportation, City of Los Angeles, by K. D. Walpert, interested party.

INTERIM OPINION

General Telephone Company of California has filed this application for authorization to issue and sell 500,000 shares of its common stock of the aggregate par value of \$10,000,000 and \$25,000,000 of first mortgage bonds and to execute a supplemental indenture.

Applicant intends to sell such shares of common stock, at par, to the holder of its presently outstanding common shares, namely, General Telephone & Electronics Corporation, pursuant to the pre-emptive right to subscribe for additional common shares which is granted by applicant's Articles of Incorporation, and to offer its bonds for sale at competitive bidding, the price and interest rate to be specified in the bid to be accepted by applicant. The bonds will constitute a new series to be known as Series O, will be dated May 1, 1963, will mature May 1, 1993, and will contain the customary five-year restricted redemption provision. Applicant asserts, and it presented testimony by its financial officer in support of its assertion, that the inclusion of the five-year restricted redemption provision will permit a broader market among institutional investors and will result in a lower annual cost of money.

The purpose of the proposed financing, generally, is to provide applicant with funds to reimburse its treasury, to pay indebtedness and to finance the cost of additions, betterments and improvements to its plants and facilities. Specifically, applicant intends to use \$32,000,000 of the proceeds to pay short-term borrowings from General Telephone & Electronics Corporation which have been utilized for capital purposes and to apply the balance to its current construction

program. It reports that its estimated construction expenditures for the year 1963 will aggregate \$72,200,000, that a substantial portion of this amount will be provided by internally generated funds and current liabilities and that approximately \$35,000,000 will be realized from the issue and sale of permanent securities. At the conclusion of the proposed financing, applicant's capital ratios will consist of -

Debt capital	47.54%
Preferred stock	13.58
Common stock and surplus	<u>38.88</u>
Total	<u>100.00%</u>

A public hearing on the application was held before Examiner Coleman in Los Angeles on April 11, 1963, at which time the matter was taken under submission. At the hearing Edward L. Elincoe, appearing for himself and for Utility Users' League of California, stated that he had no objection to the proposed issue of bonds but that he did object to the issue of shares of common stock, instead of additional bonds, because of the effect on Federal income tax charges. He made two motions, to wit:

1. That the Commission deny the request of the company to issue common stock, and
2. That the Commission fix a 25% hypothetical equity on which the company can charge off Federal income taxes as an operating expense against the ratepayer.

We will enter an order at this time authorizing the issue of the bonds and will consider the request of the company to issue the common shares and the motions which are before us in a subsequent order. We find that -

1. Applicant will have need for funds from external sources to pay its short-term borrowings and to proceed with its construction program.
2. The terms and conditions under which applicant proposes to dispose of its bonds are not adverse to the public interest.
3. Under the proposed financing, applicant would be required to pay a lower interest rate than it would in the absence of a restricted redemption provision in the terms of the proposed bonds.
4. The money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The authorization herein granted is for the issue of bonds and is not to be construed as indicative of amounts to be included in future rate proceedings for the purpose of determining just and reasonable rates.

INTERIM ORDER

IT IS ORDERED that:

1. General Telephone Company of California may execute a supplemental indenture in the same form, or in substantially the same form, as the supplemental indenture annexed to the amendment to the application herein.

2. General Telephone Company of California may invite the submission of written sealed bids for the purchase of \$25,000,000 of aggregate principal amount of its First Mortgage Bonds, Series O, due May 1, 1993, such invitation for bids to be published at least five days prior to the date set for the opening of the bids.

3. General Telephone Company of California may issue and sell said \$25,000,000 of bonds at the price offered in said bids which will result in the lowest annual cost of money calculated as set forth in this application.

4. General Telephone Company of California shall use the proceeds from the issue and sale of the bonds herein authorized to reimburse its treasury, to pay indebtedness, and to finance the cost of additions, betterments and improvements as set forth in this application. The accrued interest may be used for such purposes or for general corporate purposes.

5. Immediately upon awarding the contract for the sale of said \$25,000,000 of bonds, General Telephone Company of California shall file a written report with the Commission showing as to each bid received, the name of the bidder, the price, the interest rate and the cost of money to applicant based upon such price and interest rate.

6. Within thirty days after the issue and sale of the bonds herein authorized, General Telephone Company of California shall file a report, or reports, with the Commission showing the date on which said bonds were sold, the names of those to whom sold, and the consideration received, together with three copies of its prospectus, and a report, or reports, as required by General Order No. 24-A.

7. The authority herein granted shall become effective when General Telephone Company of California has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$9,250.

Dated at San Francisco, California, this 23rd day of April, 1963.

George P. Grover
President

Paul S. Mitchell

Everett A. Page

Fredrick B. Hobbhoff

William A. Burnett
Commissioners

