

ORIGINAL

Decision No. 65563

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA INTERSTATE TELEPHONE COMPANY for Authority to Issue and Sell \$5,000,000 Principal Amount of Its First Mortgage Bonds, 4 7/8% Series, Due 1988 and for the Exemption of Such Proposed Issue from the Requirements of the Competitive Bidding Rule Established in this Commission's Decisions No. 38614 and 49941; and for Authority to Issue and Sell 137,500 Shares of Its Twenty Dollar Par Value Cumulative Preferred Stock, 5.125% Series

Application No. 45386
Filed April 29, 1963

Best, Best & Krieger, by James H. Krieger and Glen E. Stephens, and Perry L. Hunsaker for applicant.

O P I N I O N

California Interstate Telephone Company has filed this application for authorization to issue and sell \$5,000,000 of bonds, exempt from competitive bidding, and 137,500 shares of \$20 par value, 5.125% Series, of preferred stock.

A public hearing was held before Examiner Coleman in San Francisco on May 29, 1963, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

The bonds will constitute a new series. They will be designated as First Mortgage Bonds, 4 7/8% Series, Due 1988, and will be redeemable, on or after July 1, 1968, and prior to July 1, 1969, at a premium of 5%, and thereafter at annually reducing premiums. Subject to receiving authorization from the Commission, applicant proposes to sell its bonds, by negotiated arrangements, to a group of institutional buyers and it therefore seeks exemption from the Commission's competitive bidding rule.

In support of the request for exemption, the company reports that although it proposes to issue, in the aggregate, \$5,000,000 of bonds, actually its plans call for two sales of \$2,500,000 each, one in July and the other in December of this year, and that it has concluded it is more economical, in its negotiations and proceedings before the Commission, to handle the financing as a single issue, instead of two separate issues. Applicant asserts that, in its opinion, there would be little interest in competitive bidding proceedings involving issues so small as those contemplated and the testimony offered at the hearing shows that applicant entered upon negotiations and discussions for the sale of its bonds; that substantial savings in expenses can be effected by disposing of the issues under negotiated arrangements; that the price finally agreed upon compares favorably with prices obtained by other utilities; and that the inclusion of the proposed redemption provision in

the terms of the bonds, in general, is required by institutional buyers and results in a better price than otherwise would be the case. Applicant's bonds are not rated and are not traded on the market.

The preferred shares also will constitute a new series to be designated as Cumulative Preferred Stock, 5.125% Series. They will have a par value of \$20 each and will be redeemable at \$21 a share, plus accumulated and unpaid dividends, on or before June 30, 1967, and thereafter at reducing premiums. The company proposes to sell the 137,500 shares at par to four institutional buyers.

The purpose of the proposed financing is to provide applicant with funds to discharge short-term indebtedness incurred for construction purposes, which indebtedness is expected to aggregate \$5,150,000 by July 1, 1963, and to provide the costs of plant additions and improvements. In Exhibit C, the company reports that its estimated expenditures for construction and additions to plant will aggregate \$7,500,000 during 1963.

Applicant asserts, and information before the Commission indicates, that the company's business has increased, and continues to increase, at a rapid rate, necessitating substantial additions to the plants and facilities. The Commission, from time to time, has reviewed applicant's operations in California and by Decision No. 63885, dated July 2, 1962,

approved revised rate schedules designed to produce a return of 6% for the California intrastate operations for the test year 1962. The company's capital structure, exclusive of short-term bank borrowings, as of March 31, 1963, and as adjusted to give effect to the proposed financing, is indicated in the following tabulation:

	<u>March 31, 1963</u>	<u>As Adjusted</u>
First mortgage bonds	36%	42%
Debentures and other long-term debt	14	11
Preferred stock	10	15
Common stock and surplus	<u>40</u>	<u>32</u>
Total	<u>100%</u>	<u>100%</u>

We have considered the present application and are of the opinion, and so find, that applicant will have need for externally generated funds for the purposes indicated in the application; that the terms of the proposed offerings are not unreasonable in the light of prevailing conditions; that an order is warranted exempting the proposed issue of bonds from competitive bidding; that the inclusion of the proposed redemption provision in the terms of the bonds will enable applicant to obtain funds at a lower annual cost than it otherwise could; that the money, property or labor to be procured or paid for by the issue of the bonds and stock herein authorized is reasonably required 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. We will enter an order granting the application.

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

O R D E R

IT IS ORDERED that:

1. The issue by California Interstate Telephone Company of \$5,000,000 of First Mortgage Bonds, 4 7/8% Series, Due 1988, is exempted from the Commission's competitive bidding rule which is set forth in Decision No. 38614, dated January 15, 1946, as amended.

2. California Interstate Telephone Company, on or after the effective date hereof and on or before February 29, 1964, may -

- a. Execute a Fourth Supplemental Indenture, dated July 1, 1963, in the same form, or substantially the same form, as that filed in this proceeding as Exhibit No. 1;
- b. Issue and sell, at not less than face value, plus accrued interest, not to exceed \$5,000,000 of its First Mortgage Bonds, 4 7/8% Series, Due 1988; and
- c. Issue and sell, at not less than par, plus accrued dividends, not to exceed 137,500 shares of its Cumulative Preferred Stock, 5.125% Series (\$20 par value).

3. California Interstate Telephone Company shall use the proceeds from the sale of its bonds and preferred shares for the purposes specified in this decision. The accrued interest and dividends may be used for such purposes or for general corporate purposes.

4. California Interstate Telephone Company shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

5. The authority herein granted shall become effective when California Interstate Telephone Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$3,000.

Dated at San Francisco, California, this 18th day of JUNE, 1963.

George T. Grover
President

[Signature]

[Signature]

Frederick B. Hallock

[Signature]
Commissioners

