

ORIGINAL

Decision No. 67101

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 not to exceed 150,000 shares of its \$5 par value Common Stock and for the Exemption of such Proposed Issue from the Requirements of the Competitive Bidding Rule established in this Commission's Decisions Nos. 38614 and 49941; and for Authority to Issue and Sell \$4,000,000 Principal Amount of its First Mortgage Bonds, Series A due 1989.

Application No. 46309  
Filed March 23, 1964

Best, Best & Krieger, by Glen E. Stephens,  
for applicant; Sidney J. Webb, for the  
Commission staff.

O P I N I O N

California Interstate Telephone Company has filed this application for authorization to issue and sell 150,000 shares of its \$5 par value common stock, exempt from competitive bidding, and \$4,000,000 of bonds.

A public hearing was held before Examiner Donovan in San Francisco on April 6, 1964, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Subject to receiving authorization from the Commission, applicant proposes to effect a public sale of the 150,000 shares of its common stock through negotiated arrangements with a group of underwriters who, under the terms and conditions of a proposed written agreement with applicant, would purchase all of the shares of said common stock. The agreement will provide for an offering or sales price of an amount to be computed by deducting not more than \$1 per share from the latest available bid quotation of the National Association of Securities Dealers for applicant's common stock at the time of finalizing the agreement, and for a maximum underwriting spread of 4-3/4% of said public offering price. Applicant seeks an exemption of the proposed issue of common stock from the Commission's competitive bidding rule.

In support of the request for exemption the company asserts that, in its opinion, securities underwriters would show little interest in competitive bidding proceedings involving an issue of such relatively small size and that under present conditions and with the market preparation and flexibility in timing which is available in negotiations with the proposed underwriters, it can attain at least as high a price, if not a higher one, through negotiation with an underwriting syndicate than by sale at competitive bidding.

The bonds will constitute a new series designated as First Mortgage Bonds, Series A due 1989. Applicant intends to sell the new bonds at competitive bidding, the successful bid to determine the interest rate. The bonds will be dated

May 1, 1964, will mature May 1, 1989, and will be subject to redemption, to and including April 30, 1965, at an initial redemption price equivalent to the public offering price or the principal amount, whichever is greater, plus the annual interest rate specified in the successful bid, plus accrued interest, and thereafter at reducing premiums subject, however, to a five-year restricted redemption provision similar to that frequently employed in bond offerings at the present time. Assuming that it will receive \$25 per share, or \$3,750,000, from selling the proposed 150,000 shares of \$5 par value common stock, applicant estimates that the proposed \$4,000,000 bond issue will have no material effect on its current debt ratio which approximates 52%.

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 \$6,000,000 by May 12, 1964, and to provide the costs of plant additions and improvements. Applicant estimates that gross additions to plant will aggregate \$10,500,000 during the year ending December 31, 1964, and that cash requirements necessary to finance such additions will equal approximately \$10,000,000.

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 plant and facilities.

The Commission has considered this matter and finds that: (1) the proposed stock and bond issues are for proper purposes; (2) applicant will have need for funds from external sources for the purposes set forth in this proceeding; (3) the inclusion of a five-year restricted redemption provision in the terms of the bonds will enable applicant to obtain funds at a lower annual cost than it otherwise could; (4) applicant's plan of selling the proposed issue of common stock through a negotiated underwriting rather than by competitive bidding will not be adverse to the public interest; (5) the money, property or labor to be procured or paid for by the issue of the stock and bonds herein authorized is reasonably required for the purposes specified herein; and (6) such purposes, except as otherwise authorized for bonds, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings, we conclude that the application should be granted. The action taken herein is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. The issue by California Interstate Telephone Company of 150,000 shares of its \$5 par value common stock is hereby 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 August 31, 1964, may -

- a. Execute and deliver a Fifth Supplemental Indenture dated as of May 1, 1964, in the same form, or in substantially the same form, as that attached to the application as Exhibit C;
- b. Issue and sell not to exceed \$4,000,000 aggregate principal amount of its First Mortgage Bonds, Series A due 1989, at competitive bidding to the purchaser, or purchasers, offering to it the most favorable terms as disclosed by the bids received; and
- c. Issue and sell not to exceed 150,000 shares of its \$5 par value common stock at a price of not less than that to be determined in accordance with the formula set forth in this proceeding.

3. California Interstate Telephone Company shall use the proceeds from the sale of its common shares and bonds for the purposes specified in the 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 bonds, California Interstate Telephone Company 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, together with the name of the bidder to whom the contract for the sale of the bonds was awarded.

5. Within thirty days after the issue and sale of the shares of common stock and bonds herein authorized, California Interstate Telephone Company shall file with the Commission three copies of its prospectus relating to the common stock and three copies of its prospectus relating to the bonds.

6. 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 hereby made a part of this order.

7. This order 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 \$2,500.

Dated at San Francisco, California, this 21<sup>st</sup> day of April, 1964.

*William L. Bennett*  
President

*George L. Trover*  
*Frederick B. Halbluff*

George L. Trover  
Frederick B. Halbluff  
Commissioners

