

ORIGINAL

Decision No. 68515

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 \$35,000,000)
principal amount of First Mortgage)
Bonds, Series Q, Due March 1, 1995,)
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.)

Application No. 47241
Filed January 7, 1965

In the Matter of the Application)
of General Telephone Company of)
California for an Order)
authorizing it to issue and sell)
699,004 shares of its Common)
Stock.)

Application No. 47242
Filed January 7, 1965

O P I N I O N

General Telephone Company of California has filed these applications requesting authorization to execute a supplemental indenture and to issue and sell \$35,000,000 principal amount of its first mortgage bonds and \$13,980,080 par value of its common stock.

Applicant is a California corporation owning and operating telephone systems in various cities and areas in the Counties of Fresno, Los Angeles, Orange, Sacramento, San Bernardino,

Santa Barbara, Solano, Tulare, Ventura and Yolo, all in the State of California. For the 12 months ended November 30, 1964, it reports total operating revenues of \$195,074,497 and a net income of \$25,990,328.

The company proposes to issue 699,004 shares of its common stock of the par value of \$20 each and of the aggregate par value of \$13,980,080, and to sell such shares, 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 and to purchase additional common shares which is granted by applicant's Articles of Incorporation. Applicant asserts that it will issue the common stock in consideration of the discharge of short-term notes issued to General Telephone & Electronics Corporation, the principal amount of which aggregated \$13,980,080 as of January 6, 1965, and that such notes provided funds for capital purposes.

Applicant intends to offer for sale at competitive bidding \$35,000,000 principal amount of its First Mortgage Bonds, Series Q, Due March 1, 1995, the price and interest rate to be specified in the bid to be accepted by it. The bonds will constitute a new series which will be dated March 1, 1965, will mature March 1, 1995, and may not be redeemed prior to March 1, 1970, if such redemption is for the purpose or in anticipation of refunding such bonds by the application,

directly or indirectly, of funds borrowed by the company at an interest rate less than the rate of interest on the bonds. Applicant asserts that the elimination of said nonredemption provision would require a higher bond interest rate or other concessions resulting in a higher annual cost of money on said bonds and would tend to limit the market therefor among large institutional investors.

The purpose of the proposed bond financing 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. The company reports that its uncapitalized expenditures up to November 30, 1964, were \$220,625,437 and that its short-term notes to banks amounted to \$21,000,000 as of that date. Applicant estimates that at the time of the sale of its Series Q bonds it will be indebted to banks and to General Telephone & Electronics Corporation in the respective amounts of not to exceed \$32,000,000 and \$14,000,000 on short-term notes then outstanding, and will have spent the proceeds of such borrowings for capital purposes.

It has been applicant's policy to finance its capital expenditures, in part, with short-term borrowings and, at a later date, to refinance such borrowings with the proceeds from the issue and sale of shares of stock and long-term debt. Its capital ratios as of November 30, 1964, and as adjusted to give effect to the proposed issues of common stock and bonds are as follows:

	<u>Nov. 30, 1964</u>	<u>As Adjusted</u>
First mortgage bonds	43.98%	47.83%
Other long-term debt	2.71	2.58
Short-term notes	3.75	-
Preferred stock	11.59	11.04
Common stock and surplus	<u>37.97</u>	<u>39.55</u>
Total	<u>100.00%</u>	<u>100.00%</u>

Applicant's balance sheet, as of November 30, 1964, shows current assets in the total amount of \$35,674,138 and current and accrued liabilities of \$85,385,308, including the \$21,000,000 of short-term notes to banks.

The Commission has considered the above-entitled matters and finds that: (1) the proposed issues of common stock and bonds are for proper purposes; (2) applicant has need for additional funds from external sources to improve its current financial position and to meet construction costs; (3) the inclusion of the 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) 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 (5) such purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings we conclude that the applications should be granted. A public hearing is not necessary.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the authorization herein given is not to be construed as a finding of value of applicant's stock or properties nor 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. General Telephone Company of California may issue and sell to the holder of its presently outstanding common shares, on or before June 30, 1965, at not less than par, not to exceed 699,004 additional shares of its common stock for the purpose of discharging short-term notes issued to such shareholder.

2. General Telephone Company of California may invite the submission of written sealed bids for the purchase of \$35,000,000 in aggregate principal amount of its First Mortgage Bonds, Series Q, Due March 1, 1995, 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 execute a supplemental indenture and may issue and sell said \$35,000,000 of bonds at the price offered in said bids which will result in the lowest annual cost of money calculated as set forth in the Statement of Terms and Conditions Relating to Bids.

4. General Telephone Company of California shall use the proceeds from the issue and sale of such bonds to reimburse its treasury, to pay indebtedness and to finance the cost of additions, extensions and improvements as set forth in Application No. 47241. The accrued interest may be used for general corporate purposes.

5. Immediately upon awarding the contract for the sale of said \$35,000,000 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 on 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 with the Commission three copies of its prospectus.

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

8. The effective date of this order, insofar as it relates to Application No. 47241, shall be seven days after the date hereof, provided General Telephone Company of California has paid the fee prescribed by Section 1904 (b) of the Public Utilities Code, which fee is \$11,750.

9. The effective date of this order, insofar as it relates to Application No. 47242, shall be ten days after the date hereof.

Dated at San Francisco, California,
this 19th day of JANUARY, 1965.

Frederick B. Hallock
President
Paul E. Mitchell
William W. Parnell
George L. Hoover

Commissioners

