

Decision No. 69433

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )  
of General Telephone Company of )  
California for an Order )  
authorizing it to issue and sell )  
not to exceed \$30,000,000 )  
principal amount of Sinking Fund )  
Debentures, Due September 1, )  
1990, and to execute and deliver )  
an Indenture pursuant to which )  
said Debentures are to be issued. )

Application No. 47706  
Filed June 28, 1965  
and Amendment  
Filed July 9, 1965

O P I N I O N

This is an application for an order of the Commission authorizing General Telephone Company of California to issue and sell \$30,000,000 aggregate principal amount of debentures and to execute an indenture.

Applicant plans to offer the debentures for sale at competitive bidding, the price and interest rate to be determined by the successful bid. The contemplated issue will constitute a new series to be designated as Sinking Fund Debentures, Due September 1, 1990. Said debentures will be dated September 1, 1965, will be expressed to mature September 1, 1990, and will be issued under and pursuant to the terms of an indenture. Redemption may be made at applicant's option at a price equivalent to the initial public offering price or the principal amount, whichever is greater, plus the annual rate of interest

specified in the successful bid, plus accrued interest in each case, and thereafter at annually reducing premiums.

The optional redemption privilege is subject to the provision that the debentures may not be redeemed prior to September 1, 1970, if such redemption is for the purpose or in anticipation of refunding debentures by the application, directly or indirectly, of funds borrowed by applicant at an interest rate less than the rate of interest on the debentures. It appears that a similar restricted redemption provision has been applicable to each of the company's issues of debt securities since 1957. Applicant asserts that elimination of such restriction would require a higher interest rate or other concessions resulting in a higher annual cost of money on said debentures and would tend to limit the market therefor among large institutional investors.

The company proposes to use part of the proceeds from the \$30,000,000 debenture issue for discharging temporary loans to be negotiated with a bank or banks in order to redeem applicant's \$20 par value 5-1/2% Cumulative Preferred Stock. According to the application, all outstanding 750,000 shares of said stock will be redeemed at a price of \$22 per share, plus accrued dividends. The utility plans to apply the balance of the proceeds toward payment of expenses incidental to the financing contemplated herein and, to the extent available, to use the remaining funds for one or more purposes including

(a) reimbursing the treasury for capital expenditures, (b) financing capital costs and (c) discharging short-term notes issued and to be issued for one or more of such purposes.

Exhibit B, attached to the application, indicates capital expenditures of \$193,157,764 as of May 31, 1965, which have not been financed by issues of securities. Said exhibit also contains applicant's estimates for the year 1965 of its cash requirements and sources of funds, which are summarized as follows:

<u>Application of Funds</u>	
Construction expenditures, less salvage	\$117,981,000
Redemption and retirement of 5-1/2% preferred stock	16,525,000
Retirement of serial notes and debentures	600,000
Dividends	22,849,000
Decrease in short-term loans	<u>15,650,000</u>
Total	<u>\$173,605,000</u>
<u>Sources of Funds</u>	
Net income	\$ 30,258,000
Depreciation and amortization	34,452,000
Net proceeds from sales of securities -	
Common stock	38,940,000
Bonds	34,750,000
Debentures	29,850,000
Depreciation reserve acquired	288,000
Decrease in working capital	<u>5,067,000</u>
Total	<u>\$173,605,000</u>

The balance sheet, annexed to the application as part of Exhibit A, shows that the utility's net investment in telephone plant as of May 31, 1965 was \$626,704,833. The company's working capital position on said date consisted of current assets

amounting to \$40,171,480 and current and accrued liabilities of \$78,455,559, including short-term notes payable to banks and to General Telephone & Electronics Corporation in respective sums of \$3,040,000 and \$23,000,000. The following summary, based on information appearing in Exhibit B, appended to the application, sets forth applicant's reported capital ratios as of May 31, 1965, together with adjustments giving effect to (a) the redemption and retirement of \$15,000,000 par value of 5-1/2% preferred stock, (b) the issue and sale, at par, of \$25,000,000 aggregate par value of common stock recently authorized by this Commission and (c) the issue and sale of \$30,000,000 principal amount of debentures as proposed herein:

	<u>May 31, 1965</u>	<u>Pro Forma</u>
Long-term debt	48.05%	51.93%
Short-term notes	4.22	-
Preferred stock	10.54	7.96
Common stock and surplus	<u>37.19</u>	<u>40.11</u>
Total	<u>100.00%</u>	<u>100.00%</u>

The Commission has considered this matter and finds that: (1) the proposed issue of debentures is for proper purposes; (2) applicant has need for additional funds from external sources for the purposes set forth in the application; (3) the inclusion of a five-year restricted redemption provision in the terms of the debentures will enable applicant to obtain funds at a lower annual cost than it otherwise could; (4) the proposed indenture would not be adverse to the public interest; (5) the money, property or labor to be procured or paid for by the issue

of the debentures herein authorized is reasonably required for the purposes specified herein; and (6) such purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income. A public hearing is not necessary.

On the basis of the foregoing findings we conclude that the application should be granted. The authorization herein given 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. General Telephone Company of California may invite the submission of written sealed bids for the purchase of \$30,000,000 aggregate principal amount of its Sinking Fund Debentures, Due September 1, 1990, such invitation for bids to be published at least five days prior to the date set for the opening of the bids.

2. General Telephone Company of California may execute and deliver an indenture in the same form, or in substantially the same form, as that attached to the amendment to the application as Exhibit G, and may issue, sell and deliver said \$30,000,000 of

debentures 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 appended to the amendment to the application as Exhibit D.

3. General Telephone Company of California shall use the proceeds from the issue and sale of said debentures for the purposes specified in this proceeding. 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 \$30,000,000 of debentures, 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.

5. Within thirty days after the issue and sale of the debentures herein authorized, General Telephone Company of California shall file with the Commission three copies of its prospectus relating to said debentures.

6. 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.

7. This order shall become effective on the day of payment by General Telephone Company of California of the fee prescribed by Section 1904 (b) of the Public Utilities Code, which fee is \$10,500, or on the tenth day after the date hereof, whichever day is later.

Dated at San Francisco, California, this 27<sup>th</sup> day of July, 1965.

Frederick B. Holliday  
President

George T. Grever

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Commissioner Peter E. Mitchell, being necessarily absent, ~~did not participate~~ in the disposition of this proceeding.

Commissioner William M. Bennett, being necessarily absent, ~~did not participate~~ in the disposition of ~~this~~ <sup>Commissioners</sup> proceeding.

