ORIGINAL

Decision No. 71299

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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| In the Matter of the Application of<br><br>THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation,<br><br>for an order authorizing it (a) to issue and sell $130,000,000 principal amount of Thirty-Six Year % Debentures due November 1, 2002, (b) to execute and deliver an Indenture to be dated November 1, 1966, and (c) to offer 10,956,942 common shares for subscription and sale for cash at $18 per share to the holders of its common and preferred shares. | Application No. 48650<br>Filed July 22, 1966 |

Arthur T. George, for applicant;
Ralph Hubbard, for California Farm Bureau Federation, interested party;
Thomas M. O'Connor, City Attorney, by Robert R. Laughead, Chief Valuation and Rate Engineer, for City and County of San Francisco, interested party;
Sidney J. Webb, for the Commission staff.

## O P I N I O N

This is an application for an order of the Commission authorizing The Pacific Telephone and Telegraph Company to execute and deliver an Indenture, and to issue and sell $130,000,000 aggregate principal amount of debentures and 10,956,942 shares of common stock.

After due notice, a public hearing in this matter was held before Examiner Donovan in San Francisco, on August 25, 1966, at which time the matter was taken under submission. Although the record in this proceeding contains no protests, the representative of the City and County of San Francisco urged that applicant give serious consideration to the greater utilization of debt capital in financing future construction requirements, thus increasing the debt portion of its capital structure to somewhat above the 35% average it now regards as an objective.

The company intends to sell its new debentures through competitive bidding, the successful bid to determine the interest rate. The debentures will be issued under a new Indenture to be dated November 1, 1966. They will bear a maturity date of November 1, 2002, and will not be redeemable prior to November 1, 1971, on which date the initial redemption price will be four points above the public offering price. For subsequent years the redemption price will be at annually reducing premiums, provided that on and after November 1, 1997, said price will be 100% of the principal amount. Accrued interest to the date fixed for redemption will be added in each instance.

Applicant proposes to offer 10,956,942 shares of its common stock at $18 per share to shareholders of record on November 25, 1966, in the ratio of one common share for each eleven common shares outstanding and seven common shares for each eleven preferred shares outstanding. The $18 price approximates the $18.36 per share book value of the company's common shares as of June 30, 1966. The market price of approximately $22.50 per share at the time of the hearing would place a value of about 35 cents on each right. Such value per right is considered by applicant as approaching the minimum value which is necessary to secure a successful sale of the shares to be offered. Exhibit No. 1, filed in this proceeding, shows that applicant's presently outstanding stock consists of 820,000 shares of $100 par value preferred stock and 114,786,371 shares of $14-2/7 par value common stock, of which 640,957 shares (78.17%) and 103,544,761 shares (90.21%), respectively, are owned by American Telephone and Telegraph Company.

The record in this proceeding shows that the proceeds (estimated at $327,225,000) to be derived by applicant from selling said debentures and common stock will be applied toward reimbursing its treasury for moneys actually expended from income and from other treasury funds of applicant and its subsidiary, Bell Telephone Company of Nevada, for the acquisition of property and for the construction, completion, extension and improvement of facilities of the two corporations. Applicant reports that as of June 30, 1966, such unreimbursed expenditures amounted to $1,017,534,159. Exhibit No. 2, which relates to construction expenditures, shows estimated 1966 gross additions amounting to $427,750,000 and $14,600,000 for The Pacific Telephone and Telegraph Company and Bell Telephone Company of Nevada, respectively.

Applicant expects that all of the treasury funds to be derived from the financing proposed in this proceeding will be used to repay temporary borrowings from American Telephone and Telegraph Company. The record shows that said temporary borrowings were, and will be, utilized by applicant to carry out its construction program and it is estimated that said borrowings will amount to $342,000,000 by December 31, 1966, in the absence of permanent financing. The excess, if any, of funds to be provided by the proposed financing will be used for construction and other proper corporate purposes.

It appears that applicant has been endeavoring to maintain an average debt ratio in the neighborhood of 35% and that the proposed financing will be consistent with such objective, the estimated debt ratio at December 31, 1966, being 34.7%. It is applicant's position that an increase in the debt ratio would be unwise in view of the previously mentioned heavy construction expenditures. It does not appear that any diminution in the amount of construction expenditures can be anticipated in the foreseeable future.

Consideration has been given in this proceeding as well as in prior proceedings involving this applicant's financing programs to the fact that applicant's management desires to maintain a debt ratio which is somewhat lower than that generally maintained by other large utilities. Although the utilization of debt securities to finance a greater portion of its construction program may not be advisable at this time due to prevailing market conditions, it is presumed that applicant will continue to consider the advisability of using a higher debt ratio.

Upon consideration of the record in this proceeding the Commission finds that:

1. The proposed debenture and common stock issues are for proper purposes.

2. Applicant has need for funds from external sources for the purposes set forth in this proceeding.

3. Applicant will be required to pay interest at a lower effective rate than it would in the absence of a restricted redemption provision.

4. The proposed Indenture will not be adverse to the public interest, and

5. The money, property or labor to be procured or paid for by the issue of the debentures and common stock herein authorized is reasonably required for the purposes specified herein, and 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 the foregoing findings we conclude that the application should be granted. 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 granted is not to be construed as a finding of the 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. The Pacific Telephone and Telegraph Company may execute and deliver an Indenture in the same form, or in substantially the same form, as that attached to the application as Exhibit C.

2. The Pacific Telephone and Telegraph Company may invite the submission of written sealed bids for the purchase of not to exceed $130,000,000 aggregate principal amount of its Thirty-Six Year Debentures due November 1, 2002.

3. The Pacific Telephone and Telegraph Company may issue and sell said debentures in the aggregate principal amount of not to exceed $130,000,000 at the price offered in said bids which will result in the lowest cost of money to applicant calculated in the manner provided in the Statement of Terms and Conditions Relating to Bids attached to the application as a part of Exhibit D.

4. Immediately upon awarding the contract for the sale of said debentures, The Pacific Telephone and Telegraph 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 debentures was awarded.

5. The Pacific Telephone and Telegraph Company may offer not to exceed 10,956,942 shares of its common stock, for subscription and sale for cash at $18 per share, to the holders of its common and preferred shares in the proportion of one common share for each eleven common shares and seven common shares for each eleven preferred shares standing in the name of each shareholder of record on its stock books at the close of business on November 25, 1966. Upon receipt of properly executed subscriptions and the necessary funds, applicant may issue certificates for the appropriate number of shares.

6. Within thirty days after the closing date of subscriptions for the shares of stock herein authorized to be issued, The Pacific Telephone and Telegraph Company shall file with the Commission a report showing the number of shares of stock subscribed for by American Telephone and Telegraph Company, the number of shares of stock subscribed for by others, and the consideration received. Such statement shall be filed in lieu of a report, or reports, under General Order No. 24-B.

7. The Pacific Telephone and Telegraph Company shall use the proceeds to be derived from the issuance and sale of said stock and debentures, other than accrued interest, to reimburse, so far as possible, its treasury for funds expended as set forth in the application. The accrued interest may be used for such purpose or for general corporate purposes.

8. As soon as available, The Pacific Telephone and Telegraph Company shall file with the Commission three copies of its prospectus relating to the debentures and three copies of its prospectus relating to the common stock.

9. This order, insofar as it pertains to debentures and the related bids and Indenture, shall become effective when The Pacific Telephone and Telegraph Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $35,500. In all other respects this order shall become effective twenty days after the date hereof.

Dated at Los Angeles, California, this 20th day of SEPTEMBER, 1966.

President

George G. Grover

Frederick B. Holoboff

William M. Bennett

Augustus [illegible]

Commissioners

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

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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