

Decision No. 75083**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application  
ofTHE PACIFIC TELEPHONE AND  
TELEGRAPH COMPANY, a corporation,

for an order authorizing it (a)  
to issue and sell \$165,000,000  
principal amount of Thirty-Five  
Year % Debentures due  
July 1, 2003, (b) to execute  
and deliver an Indenture to be  
dated July 1, 1968, and (c) to  
do equity financing in the  
amount of approximately  
\$165,000,000 by the offering of  
common shares for subscription  
and sale for cash to the holders  
of its common and preferred shares.

Application No. 50105

SECOND SUPPLEMENTAL OPINION

Decision No. 74389 (July 9, 1968) authorized Pacific Telephone and Telegraph Company, on or before December 1, 1968, to issue and sell \$165,000,000 aggregate principal amount of its debentures, and not exceeding 8,763,728 additional shares of its common stock to realize approximately \$165,000,000 in proceeds. Certain terms and conditions of the latter were to be the subject of a supplemental application, and order following a public hearing thereon.

In October of 1968 Pacific filed a petition for extension of the expiration date fixed in Decision 74389 from December 1, 1968 to June 1, 1969. No action having been taken on that petition, on November 29, 1968 Pacific filed a supplemental application seeking reaffirmance of Decision 74389 with an expiration date of June 1, 1969.

Such application states that the sale of the debentures as authorized was completed on July 31, 1968, but that the offer of

common shares and the fixing of the proposed terms of such offer were deferred, awaiting decision in rate increase Application 49142. Decision therein issued on November 6, 1968, and Pacific states it is now timely to proceed with the common share offering. Pacific plans to fix the proposed terms and conditions at a directors' meeting scheduled for December 27, 1968, and thereafter immediately to apply for approval of terms and conditions.

Pacific asks the Commission to regard the petition for extension of effective date, filed in October 1968, as a petition for reaffirmance of the order in Decision 74389 in so far as the issuance and sale of common shares is concerned, alleging that no intervening facts have developed which would warrant Pacific in withholding or further deferring its common share offer. In the exercise of its continuing jurisdiction, the Commission is requested to issue an ex parte order of reaffirmance, fixing an expiration date of June 1, 1969.

As indicated by applicant on the record in this proceeding, timing is of extreme significance in any financing effort, whether debt or equity. An important justification for the so-called package financing of 50 percent debt--50 percent equity, as contrasted to 100 percent debt, was applicant's testimony that the market in mid-1968 would have trouble enough absorbing \$165,000,000 of debt, and that applicant would pay a penalty in cost because of the size of the proposed debt issue. Official notice is taken of the fact that the debt issue was disposed of July 23, 1968 at a cost of 6.53 percent, and that this was a most favorable rate as compared to other AAA debt sales of similar magnitude at about the same time. Economic conditions relating to corporate financing have changed significantly since that date and continued changes may be expected.

If applicant's present request is granted, it proposes to apply for approval of terms and conditions of the common share

offering immediately following the directors' meeting scheduled for December 27, 1968.

The Commission concludes that good cause appears for granting the pending request, but applicant should be prepared to justify the economic propriety of common equity financing as opposed to any other method, based upon financial conditions current at the time of hearing on its contemplated supplemental application.

SECOND SUPPLEMENTAL ORDER

IT IS ORDERED that the authorization granted in the order in Decision No. 74389 is hereby reinstated and reaffirmed, subject to the following conditions:

1. Such authorization shall expire June 1, 1969.
2. At the hearing on the contemplated supplemental application, applicant shall present evidence to justify continuance of authorization to issue approximately \$165,000,000 in common equity, based upon financial conditions current at the time of such hearing.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 10<sup>th</sup> day of DECEMBER, 1968.

William Symons, Jr.  
President

Delegation

Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

3. Commissioner Fred P. Morrissey  
Present but not participating.