

ORIGINAL

Decision No. 75213

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
)
 GOLDEN WEST TELEPHONE COMPANY)
)
 for an order authorizing it to (a))
 enter into a loan agreement with)
 Pacific Mutual Life Insurance)
 Company, (b) to sell and issue)
 \$1,000,000 principal amount of its)
 7-1/2% promissory notes to Pacific)
 Mutual Life Insurance Company)
 pursuant to said loan agreement,)
 and (c) to sell and issue 54,348)
 of its common shares as required)
 by said loan agreement.)
 _____)

Application No. 50776
Filed December 26, 1968

O P I N I O N

In this proceeding Golden West Telephone Company requests an order of the Commission authorizing it to execute a loan agreement, and to issue 54,348 shares of common stock and a \$1,000,000 note.

Applicant, a subsidiary of Continental Telephone Corporation, is a California corporation furnishing local and toll telephone service in portions of the States of Arizona and California. For the year 1967 the company reports total operating revenues and net income of \$5,287,545 and \$708,596, respectively.

According to the utility's 1967 annual report on file with the Commission, the company had 28,123 telephones in service at the end of the year of which 26,503 were located in California. As of September 30, 1968, applicant reports assets and liabilities as follows:

Assets

Telephone plant less depreciation reserve	\$19,154,747
Investments	31,148
Current assets	1,218,510
Deferred charges	<u>57,651</u>
Total	<u>\$20,462,056</u>

Liabilities

Common stock, \$1 par value	\$ 1,108,782
Preferred and preference stock	462,175
Surplus	3,846,431
Long-term debt	13,919,503
Current liabilities	1,018,464
Deferred credits	<u>106,701</u>
Total	<u>\$20,462,056</u>

By Ordering Paragraph No. 9 of Decision No. 71700, dated December 13, 1966, in Application No. 48959, the Commission authorized applicant to issue promissory notes in the aggregate principal amount of not exceeding \$2,000,000 at any one time outstanding pursuant to the terms of a credit agreement with Crocker-Citizens National Bank. Although the \$13,919,503 of long-term debt consists primarily of Rural Electrification Administration indebtedness, such item also includes \$1,300,000 of said bank notes. Applicant

anticipates that the latter balance will increase to \$1,500,000 by the time it exercises the authority requested in this proceeding.

Pursuant to provisions of a proposed loan agreement with Pacific Mutual Life Insurance Company, applicant contemplates borrowing \$1,000,000 which it will use for retiring a portion of said bank loans. The borrowing will be evidenced by a promissory note bearing interest at the rate of 7-1/2% per annum payable semiannually, and requiring repayment of the principal amount in annual installments of \$20,000 commencing January 1, 1972, with the unpaid balance becoming due on January 1, 1994. Applicant will be permitted to prepay all or any part of the loan in multiples of \$10,000 upon payment of accrued interest and a premium of 7.5% for the first seven years and reducing each year thereafter. However, the company will not be permitted to make any such optional prepayment prior to January 1, 1979, if such prepayment is made as part of a refunding operation using funds borrowed at an effective net interest cost of less than 7.5% per annum. It appears that under present market conditions the utility would not be in a position to issue the \$1,000,000 note without paying a higher interest rate than 7-1/2% per annum without the ten-year refunding restriction.

In order to increase its equity capital by \$500,000, applicant proposes to issue 54,348 additional shares of its \$1

par value common stock to its parent corporation at a price of \$9.20 per share, being the price recognized by the Commission in said Decision No. 71700. The stock proceeds are to be used for capital additions, to retire outstanding bank loans for capital additions, and to reimburse the company for funds expended for capital additions.

After consideration the Commission finds that: (1) the proposed stock and note issues are for proper purposes; (2) applicant will be required to pay interest at a lower rate than it would in the absence of the proposed restricted prepayment provision; (3) the money, property or labor to be procured or paid for by the issue of the stock and note herein authorized is reasonably required for the purposes specified herein; (4) such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; and (5) the proposed loan agreement will not be adverse to the public interest. On the basis of these findings we conclude that the application 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

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. Golden West Telephone Company may execute, deliver and enter into a loan agreement with Pacific Mutual Life Insurance Company, which agreement shall be in the same form, or in substantially the same form, as that attached to the application as Exhibit B.

2. Golden West Telephone Company, on or after the date hereof and on or before March 31, 1969, may issue and deliver to Pacific Mutual Life Insurance Company its promissory note in the principal amount of not exceeding \$1,000,000, which note shall be in the same form, or in substantially the same form, as that attached to the application as Exhibit A of Exhibit B.

3. Golden West Telephone Company, on or after the date hereof and on or before March 31, 1969, may issue and sell not exceeding 54,348 shares of its \$1 par value common stock at a price of \$9.20 per share.

4. Golden West Telephone Company shall use the proceeds

to be derived from the issue of said stock and note for the purposes specified in this proceeding.

5. Golden West Telephone Company 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.

6. The effective date of this order is the date hereof.

Dated at San Francisco, California, this 21st day of JANUARY, 1969.

William Sproule, Jr.
President
Augustin
David P. Morrissey
William
Commissioners

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.