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Decision No. 76760

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, a corporation, for an order authorizing it to issue and sell $150,000,000 principal amount of Thirty-Five Year % Debentures due April 1, 2005; authorizing it to execute and deliver an Indenture to be dated April 1, 1970, and for the exemption of such proposed issue of Debentures from the requirements of the Competitive Bidding Rule established in the Commission's Decisions Nos. 30614, 49941 and 75556.	Application No. 51583 Filed December 29, 1969

Arthur T. George, for applicant.
Thomas M. O'Connor, City Attorney, by William C. Taylor, Deputy City Attorney and R. Laughead, 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

The Pacific Telephone and Telegraph Company seeks an order granting it an exemption from the Commission's competitive bidding rule, and authorizing it to issue and sell $150,000,000 principal amount of debentures and to execute and deliver an indenture.

After due notice, a public hearing in the above-entitled matter was held before Examiner Donovan in San Francisco on January 21, 1970, at the conclusion of which the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant intends to use the debenture proceeds for the purpose of reimbursing its treasury, to the extent that such proceeds are sufficient, for moneys actually expended since October 31, 1922, from income and other treasury funds of the company and its subsidiary, Bell Telephone Company of Nevada, for the acquisition of property and for the construction, completion, extension and improvement of facilities. The utility reports that on November 30, 1969, its unreimbursed expenditures amounted to $1,522,061,295. The record shows that upon reimbursement of the company's treasury on or about April 8, 1970, applicant will use said treasury funds for the purpose of reducing the amount of its then outstanding short-term borrowings to an estimated balance of approximately $130,000,000.

The company contemplates selling the new debentures on a negotiated basis to a nationwide group of investment banking firms. On March 30, 1970, applicant, through its Board of Directors, intends to determine the price and interest rate at which it will sell the debentures. The record shows that said date will occur shortly prior to the time of the proposed public offering, and that the price and interest rate will reflect market conditions prevailing at that time. The debentures will be subject to a five-year restricted redemption provision. Applicant estimates that its debt ratio as of April 30, 1970 will approximate 42.3%.

Applicant's reasons for requesting exemption from the Commission's competitive bidding rule are summarized from the record in this proceeding, as follows:

"First - The condition of the financial markets resulting from the Government's efforts to curtail credit and slow down inflationary trends has made it more difficult in recent months to sell large debt issues. Particularly as a result of the inflationary trends, large institutional buyers appear to be less interested in buying debt issues than in years past notwithstanding the current high interest yields.

"Second - The current market conditions make it essential that there be substantial preoffering marketing efforts by the underwriters so that they can have reasonable assurance that there will be a market for the debentures being sold. Experience shows that more successful marketing efforts can be made by underwriters if they have reasonable assurance that they will have securities to sell, as is the case with a sale which is being negotiated, rather than if they must wait to see if they can bid successfully for the issue.

"Third - The debenture issue which is proposed is a very large one considering present market conditions. Under unsettled market conditions, it is apparently very difficult to get together two syndicates large enough to submit separate bids on an issue of this size. If the issue is sold on a negotiated basis, more underwriting resources can be brought to bear in one large group of underwriters.

"Fourth - In the recent sale of our debenture issue at competitive bidding on December 2, 1969, the cost to the Company was 9.2% which was an all-time high interest cost for any Bell System or other Aaa rated debt issue. In retrospect, we believe that the bidding groups were compelled to bid on the high side in the exercise of reasonable caution in view of the unsettled market conditions then prevailing. This was borne out by the fact that shortly after the sale of the issue, the debentures were selling at a premium and have continued to sell on such basis."

After consideration of the application, testimony and exhibits, and noting the absence of any opposition, we find that:

1. The proposed debenture issue is 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 the proposed restricted redemption provision.

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, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

6. The issue and sale of the proposed debentures should not be required to be at competitive bidding.

On the basis of the foregoing findings we conclude that the application should be granted. The authorization herein granted 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.

Applicant is hereby placed on notice that, if the Commission believes that the price or interest rate pertaining to the proposed debenture issue will result in an excessive effective interest cost, it will take into consideration in future rate proceedings only that which it deems reasonable.

O R D E R

IT IS ORDERED that:

1. The issue and sale by The Pacific Telephone and Telegraph Company of not exceeding $150,000,000 aggregate principal amount of its Thirty-Five Year Debentures due April 1, 2005 are hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, in Case No. 4761.

2. The Pacific Telephone and Telegraph Company may execute and deliver an indenture in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit C.

3. The Pacific Telephone and Telegraph Company may issue and sell not exceeding $150,000,000 aggregate principal amount of its Thirty-Five Year Debentures due April 1, 2005, in accordance with the application herein and the terms and provisions of a Purchase Agreement in the same form, or in substantially the same form, as that filed in this proceeding as a part of Exhibit E.

4. The Pacific Telephone and Telegraph Company shall use the proceeds of the issuance and sale of said debentures, exclusive of 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.

5. On the date The Pacific Telephone and Telegraph Company determines the price and interest rate pertaining to the debentures herein authorized, it shall notify the Commission thereof in writing.

6. Within thirty days after issuing and selling the debentures herein authorized, The Pacific Telephone and Telegraph Company shall file with the Commission three copies of its prospectus pertaining to said debentures, together with a statement in lieu of a report under General Order No. 24-B, disclosing the purposes for which the debenture proceeds were used.

7. This order 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 $81,000.

Dated at San Francisco, California, this 10th day of FEBRUARY, 1970.

William Symons Jr.
President

Commissioners

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