

ORIGINAL

Decision No. 76846

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )

CONTINENTAL TELEPHONE COMPANY )  
OF CALIFORNIA, a California )  
corporation, )Application No. 51472  
Petition for Modification  
Filed January 26, 1970for an order authorizing it to )  
issue and sell \$10,000,000 )  
Principal Amount of its First )  
Mortgage Bonds, Series G )  
due 1994 )  

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Orrick, Herrington, Rowley & Sutcliffe,  
by James F. Crafts, Jr., for petitioner.  
Sidney J. Webb, for the Commission staff.FIRST SUPPLEMENTAL OPINION

By Ordering Paragraph No. 3 of Decision No. 76477, dated November 25, 1969, in the above-entitled matter, the Commission authorized Continental Telephone Company of California to issue and sell at competitive bidding not exceeding \$10,000,000 aggregate principal amount of its First Mortgage Bonds, Series G due 1994. Petitioner seeks an exemption from the competitive bidding rule so that the sale may take place pursuant to a negotiated underwriting.

After due notice, a public hearing on the Petition for Modification was held before Examiner Donovan in San Francisco, on February 9, 1970, at the conclusion of which the matter was taken under submission. The Commission has received no protests in the proceeding.

The record shows that after extensive discussions with Salomon Bros. & Hutzler, an investment banking firm which is very familiar with petitioner's bonds, the utility has concluded that a sale of its Series G bonds pursuant to a negotiated underwriting would result in a substantially lower bankers' spread than would a sale through competitive bidding. The requested exemption from competitive bidding is based upon market conditions described in the petition as follows:

"The market for first mortgage bonds of public utilities has been characterized for some months by extreme upward pressure on interest rates with minor interim downturns in yields and changing patterns in the marketing of the securities by investment banking houses. Due to shortages of funds available for investment in such type of securities by institutional investors and pre-existing commitments by such investors, an increasing number of utility first mortgage bonds are being sold to individual investors. A negotiated underwriting is far better equipped to succeed in such a market than is an offering by means of competitive bidding. In addition, a negotiated underwriting provides greater flexibility of timing and permits the issuer to take advantage of relatively short-term decreases in interest rates. Petitioner has been assured by SBH that, in view of current conditions, a negotiated sale of the Series G bonds will in all likelihood provide applicant with a lower annual cost of money than would a sale of such bonds at competitive bidding in the first six months of 1970. Since petitioner must proceed with permanent financing during the first half of the current year, petitioner believes that it should proceed with a negotiated sale as soon as market conditions seem appropriate."

After consideration of the petition as supported by evidence presented at the hearing, and noting the absence of any opposition, we find that the issue and sale of said Series G bonds should not be required to be at competitive bidding. On the basis of this finding we conclude that the petition should be granted.

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

FIRST SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. The issue and sale by Continental Telephone Company of California of not exceeding \$10,000,000 aggregate principal amount of its First Mortgage Bonds, Series G due 1994 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. Continental Telephone Company of California may issue and sell not exceeding \$10,000,000 aggregate principal amount of its First Mortgage Bonds, Series G due 1994, to a group of underwriters at such price and otherwise upon such terms and conditions as may be negotiated between petitioner and the underwriters.

3. On the date Continental Telephone Company of California determines the price and interest rate pertaining to the bonds herein authorized, it shall notify the Commission thereof by telegram.

4. Ordering Paragraphs Nos. 2, 3 and 5 of Decision No. 76477, dated November 25, 1969, are hereby rescinded.

5. Decision No. 76477, dated November 25, 1969, shall remain in full force and effect, except as modified by this order.

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

Dated at San Francisco, California,  
this 20th day of FEBRUARY, 1970.

William S. Brown  
President

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Vernon L. Sturgeon  
Commissioners

Commissioner A. W. Gatov, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.