

Decision No. 77170

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
General Telephone Company of California)	
for authority to issue and sell not to)	
exceed \$70,000,000 principal amount of)	Application No. 51788
Sinking Fund Debentures, Due June 1,)	Filed March 26, 1970
1995, and to execute and deliver to)	
United California Bank, as Trustee, an)	
Indenture supplemental to an existing)	
Indenture, and for exemption from)	
competitive bidding.)	

O'Melveny & Myers, by John B. Bertero, Jr.,
 for applicant.
Sidney J. Webb, for the Commission staff.

O P I N I O N

General Telephone Company of California requests an order of the Commission authorizing it to execute and deliver a Supplemental Indenture, and to issue, sell and deliver, exempt from competitive bidding, not exceeding \$70,000,000 aggregate principal amount of its Sinking Fund Debentures, Due June 1, 1995.

After due notice, a public hearing in the above-entitled matter was held before Examiner Donovan in San Francisco on April 16, 1970, at the conclusion of which the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant proposes to use the debenture issue proceeds, other than accrued interest, for the purpose of discharging a portion of its outstanding obligations incurred for capital purposes. In this connection the company estimates that at the time of selling the new debentures it will be indebted in an aggregate amount of \$115,000,000 on short-term notes then outstanding, and will have spent the proceeds of such borrowing for capital purposes. Accrued interest included in the purchase price of said debentures will be used for general corporate purposes.

The utility's capitalization ratios as of February 28, 1970, and as adjusted to give effect to the proposed debenture issue, are summarized from Exhibit B, attached to the application, as follows:

	<u>February 28, 1970</u>	<u>Pro Forma</u>
Long-term debt	55%	57%
Preferred stock	4	4
Common stock equity	<u>41</u>	<u>39</u>
Total	<u>100%</u>	<u>100%</u>

The company contemplates selling the new debentures on a negotiated basis to a group of investment banking firms. The securities will be issued in accordance with a previously authorized Indenture dated as of March 1, 1967, and a proposed Supplemental Indenture to be dated as of June 1, 1970. The record shows that said debentures will be subject to a five-year restricted redemption

provision similar to that applicable to each of applicant's issues of debt securities since 1957.

Applicant's reasons for requesting exemption from the Commission's competitive bidding rule, as such reasons are set forth in the application, are as follows:

"1. Institutional interest in debt securities has significantly diminished in recent months and the interest of relatively small investors has significantly increased. Therefore, underwriters and dealers find it necessary to increase their selling efforts.

"2. Advance sales efforts by members of bidding syndicates are somewhat limited, whereas underwriters and dealers in negotiated sales groups can be assured of their participation. Such assurance means that they are not subject to having preoffering marketing efforts uncompensated because of a possible loss of the bid to a competing syndicate.

"3. Underwriters in a negotiated transaction are in a better position in negotiating the price to be paid for the securities because advance sales efforts should indicate the general market interest in the securities proposed to be sold. This should contribute to a reduction of the underwriters' risk and should be a factor in the issuer obtaining a narrower spread and a better price for the securities.

"4. An underwriting group for a negotiated transaction can be strengthened by eliminating the fragmentation prevalent in competitive groups. Strong distribution organizations from some or all of the competitive bidding syndicates can be included in one syndicate formed for a negotiated transaction.

"5. Securities with low ratings are more adaptable to negotiated underwritings than are security issues with high ratings, for many of the foregoing reasons. It is expected that the proposed New Debenture issue will be rated Baa, the same as Applicant's 1967 debenture issue and that the advantages of a negotiated underwriting will therefore be even more important than they would be for securities rated A, Aa or Aaa.

"6. The public interest will be served because Applicant is informed and believes that a better price will be obtainable in a negotiated underwriting."

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 restrictive redemption provision.
4. The proposed Supplemental 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 negotiated 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 General Telephone Company of California of not exceeding \$70,000,000 aggregate principal amount of its Sinking Fund Debentures, Due June 1, 1995 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. General Telephone Company of California may execute and deliver a Supplemental Indenture in the same form, or in substantially the same form, as that attached to the application as Exhibit C.
3. General Telephone Company of California may issue, sell and deliver not exceeding \$70,000,000 aggregate principal amount of its Sinking Fund Debentures, Due June 1, 1995, in accordance with the application herein and the terms and conditions of an Underwriting Agreement in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit D.

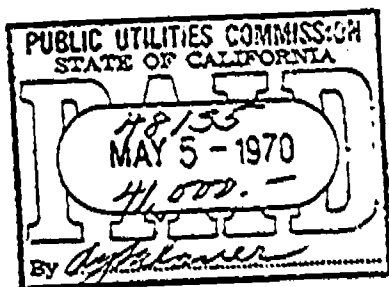
4. General Telephone Company of California shall apply the proceeds from the sale of said debentures to the purposes set forth in the application.

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

6. Within thirty days after the issue and sale of the debentures herein authorized, General Telephone Company of California 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 General Telephone Company of California has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$41,000.

Dated at San Francisco, California,
this 5th day of MAY, 1970.



William S. ...
President

[Signature]
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Commissioners