

ORIGINAL

Decision No. 78164

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 (a) to)
 issue and sell on a negotiated basis)
 \$200,000,000 principal amount of)
 Thirty-Six Year Debentures due)
 March 1, 2007, and (b) to execute and)
 deliver an Indenture to be dated)
 as of March 1, 1971.)
)

Application No. 52332
Filed November 27, 1970

Pillsbury, Madison & Sutro, by Paul L. Davies, Jr., for
applicant.
Sidney J. Webb, for the Commission staff.

O P I N I O N

The Pacific Telephone and Telegraph Company seeks an order of the Commission authorizing it to execute and deliver an indenture, and to issue and sell on a negotiated basis \$200,000,000 principal amount of debentures.

After due notice, a public hearing in the above-entitled matter was held before Examiner Donovan in San Francisco on December 17, 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 October 31, 1970 its unreimbursed expenditures amounted to \$1,678,910,981. The record shows that upon reimbursement of the company's treasury on or about March 17, 1971, 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 \$165,000,000.

The new debentures will be underwritten by a nationwide group of investment banking firms. On March 8, 1971 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 is shortly prior to the date of the proposed public offering, and that the price and interest rate will reflect prevailing market conditions. The debentures will be subject to a five-year restricted redemption provision. Applicant estimates that its debt ratio as of March 31, 1971 will be 46.0%.

As justification for requesting exemption from the competitive bidding rule, applicant cites unsettled money market conditions as it did in Applications Nos. 51583 and 51999, on which the

Commission rendered Decisions Nos. 76760 and 77577, respectively. Pursuant to said decisions the company sold on a negotiated basis to underwriters (a) on March 31, 1970, \$150,000,000 principal amount of its Thirty-Five Year 8.65% Debentures due April 1, 2005, the effective interest cost being 8.73%, and (b) on October 14, 1970, \$175,000,000 principal amount of its Thirty-Six Year 8-3/4% Debentures due October 1, 2006, the effective interest cost being 8.84%. The corresponding cost was 9.2% for \$150,000,000 principal amount of applicant's debentures sold to underwriters through competitive bidding on December 2, 1969.

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 should regard the price or interest rate pertaining to the proposed debenture issue as contributing toward an excessive effective interest cost, it would take into consideration in rate proceedings only that which it would deem 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 \$200,000,000 aggregate principal amount of its Thirty-Six Year Debentures due March 1, 2007 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 \$200,000,000 aggregate principal amount of its Thirty-Six Year Debentures due March 1, 2007, in accordance with the application herein and the terms and provisions of an Underwriting Agreement in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit D changed to reflect the principal amount, designation and terms of said debentures.

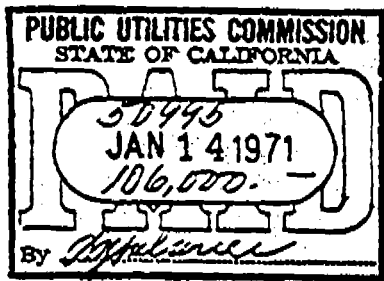
4. The Pacific Telephone and Telegraph Company shall use the proceeds of the issuance and sale of said debentures, exclusive of accrued interest, to reimburse, so far as possible, its treasury for funds expended as set forth in the application. The accrued interest may be used for such purpose or for 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 \$106,000.

Dated at San Francisco, California, this 13th day of JANUARY, 1971.



[Signature] Chairman
William James J.
[Signature]

Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.