

Decision No. 78194**ORIGINAL**

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 )  
 \$2,000,000 principal amount of )  
 its 9-1/2% promissory notes to )  
 Pacific Mutual Life Insurance )  
 Company pursuant to said loan )  
 agreement, and (c) to sell and )  
 issue 108,696 of its common )  
 shares as required by said loan )  
 agreement. )  
 )

Application No. 52345  
 Filed December 8, 1970

O P I N I O N

Golden West Telephone Company seeks an order of the Commission authorizing it to issue a \$2,000,000 note pursuant to a loan agreement, and to issue 108,696 shares of its \$1 par value common stock at a price of \$9.20 per share.

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 1969 the utility reports total operating revenues and net income of \$6,937,500 and \$1,062,925, respectively. As of September 30, 1970, applicant reports assets and liabilities as follows:

Assets

Telephone plant less depreciation reserve		\$25,017,290
Investments		31,655
Current assets		1,777,890
Deferred charges		(20,435)
	Total	<u>\$26,806,400</u>

Liabilities

Common stock, \$1 par value		\$ 1,264,941
Preferred and preference stock		448,575
Surplus		5,693,578
Long-term debt -		
R.E.A.	\$12,063,551	
Other	<u>2,087,400</u>	14,150,951
Bank loans		2,950,000
Notes and accounts payable to affiliates		1,000,000
Current liabilities, including current portion of long-term debt		946,181
Deferred credits		<u>352,174</u>
	Total	<u>\$26,806,400</u>

The company reports that it has outstanding approximately \$3,000,000 of bank loans which were incurred to finance its 1969 and 1970 construction program. The Commission authorized \$1,350,000 thereof by Decision No. 77598, dated August 11, 1970, in Application No. 52056, pursuant to which applicant issued a note maturing not later than January 31, 1971.

According to provisions of a proposed loan agreement with Pacific Mutual Life Insurance Company, applicant contemplates borrowing \$2,000,000 to be used for capital additions, retiring bank loans incurred or to be incurred for the purpose of making capital additions, and reimbursing its treasury for funds heretofore or hereafter

expended for capital additions. The borrowing will be evidenced by an unsecured promissory note bearing interest at the rate of 9-1/2% per annum payable semiannually, and requiring repayment of the principal amount in annual installments of \$60,000 commencing January 1, 1973, with the unpaid balance becoming due on January 1, 1996. Applicant would 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 9.5% for the first year and reducing each year thereafter. The note would be subject to a restricted prepayment provision until January 1, 1981, and would be subordinate to the company's outstanding Rural Electrification Administration mortgage notes.

In order to fulfill a requirement of said agreement for increasing its equity capital by \$1,000,000, the company proposes to issue 108,696 additional shares of its \$1 par value common stock to its parent corporation at a price of \$9.20 per share. Such price is the same as the Commission authorized for the sale of 54,348 shares of applicant's common stock by Decision No. 75213, dated January 21, 1969, in Application No. 50776. The stock proceeds would be either in cash or in the form of cancellation of indebtedness representing cash previously advanced to applicant by its parent corporation. Said proceeds are to be used for capital purposes consisting primarily of retiring indebtedness incurred for capital additions.

After consideration the Commission finds that:

1. The proposed stock and note issues are for proper purposes.
2. The proposed interest rate is reasonable for a private placement in the light of market conditions for unsecured loans subordinated to a relatively large amount of mortgage loans.
3. Applicant will be required to pay interest at a lower rate than it would in the absence of the proposed restricted prepayment provision.
4. 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, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
5. The proposed loan agreement would not be adverse to the public interest.

On the basis of the foregoing 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 effective date hereof and on or before April 30, 1971, may issue and deliver to Pacific Mutual Life Insurance Company its promissory note in the principal amount of not exceeding \$2,000,000, 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 effective date hereof and on or before April 30, 1971, may issue and sell not exceeding 108,696 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 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.

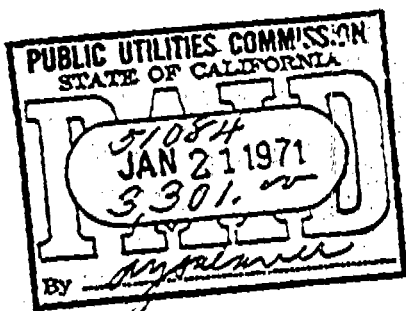
6. This order shall become effective when Golden West Telephone Company has paid the fees prescribed by Sections 1904(b) and 1904.1 of the Public Utilities Code, which fees are \$1,300 and \$2,001, respectively, amounting to a total of \$3,301.

Dated at San Francisco, California, this 19th day of JANUARY, 1971.

Chairman

*William J. ...*  
*[Signature]*  
*Vernon L. Stinger*

Commissioners



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