

ORIGINAL

Decision No. 78978

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 )  
undertake equity financing in )  
the amount of approximately )  
\$300,000,000 by the offering of )  
not more than 17,455,550 common )  
shares for subscription and )  
sale for cash to the holders )  
of its common and preferred )  
shares. )

Application No. 52712  
Filed June 25, 1971

James A. DeBois, for applicant.  
Thomas M. O'Connor, City Attorney, by Robert 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 of the Commission authorizing it to issue and sell not exceeding 17,455,550 shares of its \$14-2/7 par value common stock in order to realize proceeds approximating \$300,000,000.

After due notice, a public hearing on the above-entitled matter was held before Commissioner Symons and

Examiner Donovan in San Francisco on July 20, 1971, at the conclusion of which the matter was taken under submission. The Commission has received no protests in the proceeding.

The utility proposes to use the common stock proceeds for partial reimbursement of its treasury for capital expenditures. In this connection applicant reports that on May 31, 1971, its unreimbursed expenditures amounted to \$1,718,895,575. The record shows that following reimbursement of the company's treasury on or about September 30, 1971, applicant contemplates applying approximately \$300,000,000 to reducing its then outstanding short-term borrowings to an estimated amount of approximately \$90,000,000.

On or about September 8, 1971, applicant intends to mail to the shareholders of record on August 27, 1971, warrants evidencing rights to subscribe for the additional common shares. Such rights would expire at the close of business on September 30, 1971. The subscription price would be 89% of the closing market price of applicant's common shares on the New York Stock Exchange on the day on which such shares are traded on such exchange next preceding the day on which the Registration Statement relating to such shares becomes effective, rounded upward to the nearest eighth of one dollar.

In order to realize proceeds approximating \$300,000,000, applicant proposes to make the offering to its shareholders in the ratio of one common share for each eight common shares outstanding and seven common shares for each eight preferred shares outstanding if the market price used in setting the subscription price is \$20.50 or less. The 17,455,550 number for the additional shares of common stock is computed by adding seven-eighths of the 320,000 outstanding shares of \$100 par value preferred stock, or 717,500, to one-eighth of the 133,904,400 outstanding shares of \$14-2/7 par value common stock, or 16,738,050.

In the event that the market price used in setting the subscription price is more than \$20.50, applicant proposes to make the offering in the ratio of one common share for each nine common shares outstanding and seven common shares for each nine preferred shares outstanding, which would involve an offering of 15,516,044 common shares.

Exhibit No. 3 shows that American Telephone and Telegraph Company owns 78.17% of applicant's 820,000 shares of preferred stock and 90.16% of the 133,904,400 shares of common stock.

Assuming that the proposed offering of common shares would yield \$300,000,000, applicant estimates that its debt ratio would be 43.8% at December 31, 1971, and would average 45.7% for the year 1971. This is a significant increase over the 37.4% debt ratio following the company's most recent offering of common shares in March of 1969. Recently, the Commission commented upon the company's debt ratio by stating, on page 46 of Decision No. 78851, dated June 22, 1971, the following:

"In prior decisions the Commission has been somewhat critical of Pacific's keeping its debt ratio below 40 percent. Since the last rate proceeding, Pacific has taken steps to increase its debt ratio, which is expected to be over 43 percent by the end of the year. The higher debt ratio provides advantages to customers resulting from the reduction of Pacific's income tax included in expenses. It also provides benefits to equity stockholders resulting from the leverage of a slimmer equity. To the extent possible, consistent with maintaining the high rating of Pacific's bonds, and dependent upon market conditions at the time of issuance of additional securities, we would like to see Pacific maintain the higher debt ratio or even increase it somewhat."

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

1. The proposed common stock issue is for a proper purpose.
2. Applicant has need for external funds for the purpose set forth in this proceeding.
3. The terms and conditions of the proposed common stock offering are reasonable.
4. The proposed debt ratio would be consistent with the Commission's expressed desire.
5. The money, property or labor to be procured or paid for by the issue of the common stock herein authorized is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted. 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 it 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 the company'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. The Pacific Telephone and Telegraph Company may offer for sale for cash, in the manner and at a price to be determined as set forth in the foregoing opinion, not exceeding 17,455,550 additional shares of its common stock.

2. The Pacific Telephone and Telegraph Company may issue warrants evidencing the right to subscribe for the additional shares to be offered pursuant to Ordering Paragraph No. 1 hereof.

3. The Pacific Telephone and Telegraph Company may issue and sell, at a price determined in accordance with Ordering Paragraph No. 1 hereof, such of its not exceeding 17,455,550 additional common shares as shall be subscribed for pursuant to the exercise of said warrants.

4. Upon receipt of properly executed subscriptions and the necessary funds, The Pacific Telephone and Telegraph Company may issue certificates for the appropriate number of its common shares.

5. The Pacific Telephone and Telegraph Company shall use the proceeds to be derived from the issuance and sale of said stock to reimburse, so far as possible, its treasury for funds expended as set forth in the application.

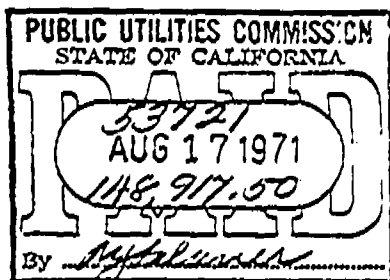
6. Promptly after The Pacific Telephone and Telegraph Company determines the precise number of shares of stock to be offered and the price at which the shares are to be offered, it shall notify the Commission of each in writing.

7. As soon as available, The Pacific Telephone and Telegraph Company shall file with the Commission three copies of its prospectus relating to the common stock herein authorized.

8. Within thirty days after the closing date of subscriptions for shares of stock herein authorized to be issued, The Pacific Telephone and Telegraph Company shall file with the Commission a report showing the number of shares of stock subscribed for by American Telephone and Telegraph Company, the number of shares of stock subscribed for by others, and the consideration received. Such statement shall be in lieu of a report under General Order No. 24-B.

9. This order shall become effective when The Pacific Telephone and Telegraph Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code. Any authority herein granted will expire if not exercised on or before January 1, 1972.

Dated at San Francisco, California,  
this 22 day of AUGUST, 1971.



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Chairman  
*William J. ...*  
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*Thomas ...*  
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*James L. Sturgeon*  
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*...*  
Commissioners

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