

ORIGINAL

Decision 82 03 021 MAR 2 - 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of General Telephone )  
 Company of California to issue and )  
 sell not exceeding 3,750,000 shares )  
 of its Common Stock (\$20 par value); )  
 and to issue, sell, and deliver one )  
 or more series of its First Mortgage )  
 Bonds, debentures, promissory notes )  
 and/or other evidences of indebted- )  
 ness in an aggregate principal )  
 amount outstanding at any one time )  
 not exceeding \$125,000,000 and to )  
 execute and deliver one or more )  
 Supplemental Indentures. )

Application 61155  
(Filed December 30, 1981)

O P I N I O N

General Telephone Company of California (General) seeks  
authority:

1. To issue and sell for cash \$75,000,000 aggregate par value of General's Common Stock, \$20 par value, to its parent corporation, General Telephone & Electronics Corporation, a New York corporation;1/
2. To issue and sell, in one or more series, by either competitive bidding, negotiated public offering, or by private placement, not to exceed \$125,000,000 principal amount of its first mortgage bonds, debentures, promissory notes, and/or other evidences of indebtedness (here called Debt Securities); and

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1/ General Telephone & Electronics Corporation owns all of the Common Stock of General Telephone Company of California.

3. To execute and deliver a supplemental indenture or indentures.

General requests this authority under Public Utility (PU) Code Sections 816 through 818 and 851. Notice of the filing of the application was published on the Commission's Daily Calendar of December 31, 1981. No protests have been received.

General is a California corporation engaged in the business of providing telephone service to customers in portions of 20 counties in California. For the 12 months ended October 31, 1981, General reported total operating revenues of \$1,434,682,000 and net income of \$131,508,000.

The purpose of issuing additional securities is for the acquisition of property; construction, completion, extension, or improvement of the utility's facilities; improvement or maintenance of its service; the discharge in whole or in part of obligations incurred for any of these purposes; and to reimburse the utility for moneys actually expended for capital purposes but not obtained from external sources. The utility reports that as of October 31, 1981, there is \$471,503,000 of plant available for the issuance of additional securities.

General's Balance Sheet as of October 31, 1981, shown as part of Exhibit A, attached to the application, is summarized as follows:

<u>Assets</u>	<u>Amount</u> (Thousands of Dollars)
Total Telephone Plant	
Less Accumulated Depreciation	\$3,480,731
Investments	3,372
Current Assets	233,227
Deferred Debits	<u>60,002</u>
Total	<u>\$3,777,332</u>
 <u>Liabilities and Equity</u>	
Common Equity	\$1,097,887
Preferred Stock	194,983
Long-Term Debt	1,511,298
Current Liabilities	417,216
Deferred Credits	<u>555,948</u>
Total	<u>\$3,777,332</u>

General estimates its short-term indebtedness as of November 30, 1982 to be \$280,810,000, with all the proceeds having been spent for capital purposes.

Review by the Revenue Requirements Division of General's 1982 estimate of construction expenditures confirms the need for construction expenditures in excess of \$757,794,000. The Revenue Requirements Division has concluded that the proposed financing is necessary to implement the company's construction program. General's estimated construction expenditures are consistent with inflationary trends and the past and projected increase in the number of main stations. The estimated expenditures required to provide planned additions to buildings, central office equipment, station equipment, outside plant, and other plant and equipment are necessary to meet customer growth and movement, modernization, and plant replacement. The Revenue Requirements Division reserves the right, however, to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

General's capital ratios reported as of October 31, 1981, and estimated as of December 31, 1982 giving effect to the proposed common stock and issue of Debt Securities, as summarized from Exhibit B attached to the application, are as follows:

	<u>October 31, 1981</u>	<u>Pro Forma</u>
Long-Term Debt	56.0%	52.7%
Preferred Stock	6.6	5.9
Common Equity	<u>37.4</u>	<u>41.4</u>
Total	100.0%	100.0%

The Revenue Requirements Division is concerned with General's high debt ratio which on a pro forma basis will approximate 53%. In the past the Revenue Requirements Division and the Commission have stressed the importance of utilities to maintain a balanced capital structure in order to be financially sound, to maintain financial flexibility, and to be able to attract capital at reasonable rates. The Division believes that additional equity capital is necessary to balance General's capital structure, and should be given primary attention in General's future financing requirements.

As part of the externally generated finances needed for its 1982 construction budget, General proposes to issue and sell at par for cash (aggregating \$75,000,000) up to 3,750,000 shares of its \$20 par value common stock to its parent, General Telephone and Electronics Corporation, a New York corporation, the holder of all of General's presently outstanding common stock. General intends to sell these common shares in one or more issues on or before December 31, 1982.

General further proposes to issue and sell on or before December 31, 1982, in one or more series, up to \$125,000,000 principal amount of its Debt Securities. Furthermore, in connection with the issue of Debt Securities, General proposes to execute and deliver a supplemental indenture or indentures if appropriate.

General alleges that because of the volatility of capital markets, and its need to quickly avail itself of the form of financing most reasonable under the circumstances, it is unable to determine at this time the exact form of the Debt Securities, whether secured or unsecured, except that the maturity date will exceed one year, but will not exceed thirty years.

General sets forth various reasons to justify its request to issue and sell Debt Securities by private placement or negotiated public offering. The reasons cited include the volatility of current financial markets, investor selectivity based on perceived creditworthiness of borrowing utilities, General's current weak financial posture and substantial external financing requirements, the need for flexibility in financial decision-making, and opportunity to advantageously premarket a large debt issue. General seeks exemption from the Commission's competitive bidding rule.

In D.91984, dated July 2, 1980 for the San Diego Gas & Electric Company in A.59633, we discussed the granting of exemptions from the competitive bidding rule, and we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule. We served notice that assertions regarding the volatility of the market, the flexibility provided by a negotiated sale, and the importance of maximizing the effectiveness of the underwriting will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

We are frankly uncertain whether under current volatile conditions, unfavorable to the issuer of corporate debt, strict adherence to the competitive bidding rule would prove beneficial. Consequently for this application only we will authorize General to proceed on either a competitive bid, a private placement, or a negotiated public offering, according to General's estimation of where the most favorable opportunity lies.

If General chooses to issue and sell the proposed Debt Securities by means of a negotiated public offering or by a private placement, we place General on notice that in its next general rate proceeding before the Commission, the reasonableness of the

resulting interest rate and cost of money to the company will be closely scrutinized and may result in a disallowance of the interest expense if it is determined that the cost of money incurred was not the most prudent. We will also require General to provide us with a showing of why it believes the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers. We will require this showing within a reasonable period of time after the issuance and sale of the proposed Debt Securities.

General requests, in the event conditions in the financial markets warrant the issuance and sale of the Debt Securities by competitive bidding, that the period of time required by the competitive bidding rule for notification of an invitation for bids be reduced from five days to one day. This reduced time interval is required because decisions relative to the method by which a financing takes place in today's volatile financial markets must be made close as possible to the date of sale.

If the Debt Securities, or any part of them, are issued and sold as first mortgage bonds they will be issued in accordance with, secured by, and will have terms and conditions as set forth in the indenture dated December 1, 1939, executed and delivered by



General to Security Pacific National Bank, as Trustee, as amended by supplemental indentures, and a proposed supplemental indenture for each series of the mortgage bonds to be dated as of the date or dates of issuance of the mortgage bonds. The form of each supplemental indenture to be used will be in a form similar to prior forms of supplemental indentures filed with the Commission. The latest form of the supplemental indenture was filed June 1, 1981 as Exhibit C to A.60623.

Findings of Fact

1. General is a California corporation operating under the jurisdiction of this Commission.
2. The proposed Common Stock and Debt Securities would be for proper purposes.
3. General has need for external funds for the purposes set forth in the application.
4. In the event that the Debt Securities are sold under the Commission's competitive bidding rule, General's request that the period of time required by the rule for notification of an invitation for bids be reduced from five days to one day is reasonable and would not be adverse to the public interest.

5. The money, property, or labor to be procured or paid for by the issuance of the Common Stock and Debt Securities authorized is reasonably required for the purposes specified. Proceeds from the issuance of these securities may not be charged to operating expenses or income.

6. The proposed supplemental indenture or indentures would not be adverse to the public interest.

7. There is no known opposition and no reason to delay granting the authorizations requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

The authorizations granted by this decision are for the purposes of this proceeding only, and are not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

The following order should be effective on the date of signature and the payment of the fee set by PU Code Sections 1904 (b) and 1904.1, to enable General to issue its common stock and Debt Securities expeditiously.

O R D E R

IT IS ORDERED that:

1. General Telephone Company of California (General), on or after the effective date of this order and on or before December 31, 1982, may issue, sell, and deliver, at one time or from time to time, to General Telephone & Electronics Corporation, at par for cash, not to exceed 3,750,000 additional shares of its Common Stock, \$20 par value.

2. On or before December 31, 1982, General may issue, sell, and deliver for cash, in one or more series, its first mortgage bonds, debentures, promissory notes, and/or other evidences of indebtedness in the aggregate principal amount up to \$125,000,000 at a price obtained either by private placement, by a negotiated public offering or, if by competitive bidding, at the price offered in a bid which would result in the lowest annual cost of money to it calculated in the manner provided in the Invitation for Bids, a copy of which, in substantially the form to be used, is attached to the application as a part of Exhibit C. The time period between the publication of the public invitation for bids and the opening of bids, if required, shall be not less than one day.

3. General may execute and deliver a supplemental indenture or indentures in substantially the form of supplemental indentures filed in connection with previous applications, the latest of which was A.60623 filed on June 1, 1981.

4. The sale by General of its first mortgage bonds, debentures, promissory notes, and/or other evidences of indebtedness in the aggregate principal amount up to \$125,000,000 is exempted from the Commission's competitive bidding rule set forth in D.38614, dated January 15, 1946, as amended, in Case 4761. The authority given is for this transaction only and for the limited purpose of permitting the sale of General's first mortgage bonds, debentures, promissory notes, and/or other evidences of indebtedness, or any series of them, or by private placement, or by a negotiated public offering.

5. If the first mortgage bonds, debentures, promissory notes, and/or other evidences of indebtedness are sold on a private placement basis or by a negotiated public offering, within 30 days after their issuance and sale, General shall file with the Commission a report setting forth the reason General believes the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

6. If the first mortgage bonds, debentures, promissory notes, and/or other evidences of indebtedness, or any series of them, are sold by competitive bidding or by a negotiated public offering, as soon as available, General shall file with the Commission three copies of its final prospectus relating to the issuance of Debt Securities.

7. General shall apply the net proceeds from the sale of the common stock and first mortgage bonds, debentures, promissory notes, and/or other evidences of indebtedness to the purposes set forth in the application.

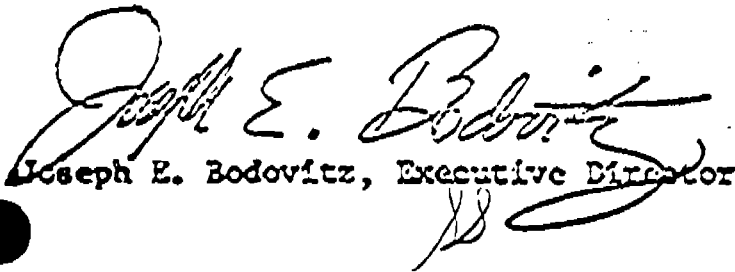
8. General shall file the reports required by General Order Series 24.

9. This order shall be effective upon payment of the \$99,725 fee set by PU Code Sections 1904 (b) and 1904.1.

Dated MAR 2 1982, at San Francisco, California.

JOHN E. BRYSON  
President  
RICHARD D. GRAVELLE  
LEONARD M. GRIMES, JR.  
VICTOR CALVO  
PRISCILLA C. CREW  
Commissioners

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

  
Joseph E. Bodovitz, Executive Director

