RR/KLH/AFM/WPSC

Decision 83 02 041 FEB 16 1983

ORIGINAL

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); $50,000,000 par or stated value of Preferred Stock; and to issue, sell, and deliver one or more series of its First Mortgage Bonds, debentures, promissory notes and/or other evidences of indebtedness in an aggregate principal amount outstanding at any one time not exceeding $150,000,000 and to execute and deliver one or more Supplemental Indentures, with the aggregate amount of said securities, or any combination thereof, not to exceed $225,000,000.	Application 82-11-11 (Filed November 5, 1982)

OPINION

General Telephone Company of California (General) requests authority, under Public Utilities (PU) Code Sections 816 through 818 and 851, for the following:

1. To issue and sell, in any combination, up to $225,000,000 aggregate principal amount of the securities listed as follows:

   a. Up to $75,000,000 aggregate principal amount of General's Common Stock (3,750,000 shares), $20 par value, for cash to GTE Corporation, parent and holder of all of General's outstanding common stock;

b. Up to $50,000,000 of General's Preferred Stock, par or stated value, in one or more series, for cash; and/or

c. Up to $150,000,000 aggregate principal amount of General's First Mortgage Bonds (New Bonds), debentures, promissory notes, and/or other evidences of indebtedness (collectively referred to as Debt Securities) in one or more series, by means of either competitive bidding, negotiated public offering, or private placement;

2. To be exempted from the Commission's competitive bidding rule those Debt Securities sold through negotiated public offering or private placement;

3. To shorten to one day the period of time between the public invitation for bids and the opening of bids for General's New Bonds sold by means of competitive bidding; and

4. To execute and deliver a Supplemental Indenture or Indentures for each series of Debt Securities.

Summary of the Decision

The decision grants General the flexibility it has requested to be authorized to structure its security offerings so as to limit them to $225,000,000 aggregate principal amount. It grants General an exemption from competitive bidding for those Debt Securities sold through negotiated public offering or negotiated private placement, but does not preclude General from issuing its Debt Securities by means of competitive bidding.

Unused and Expired Authority to Issue Securities

Under Decision (D.) 82-03-021 dated March 2, 1982 in Application (A.) 61155, General was authorized to issue and sell up to 3,750,000 shares of its Common Stock, $20 par value, for cash, estimated to produce net proceeds of $75,000,000. These were to be sold to its parent, GTE Corporation, in a period designated to expire December 31, 1982. About $50,000,000 of this was sold in October 1982 and the remaining authority has expired.

Also, under D.82-10-045 dated October 20, 1982 in A.82-09-13, General was authorized to issue and sell up to $50,000,000 aggregate principal amount of its Debt Securities by means of negotiated public offering, private placement, or competitive bidding. This authority also expired on December 31, 1982 without any benefit to General.

In this application, General proposes to limit the sale of its securities to $225,000,000 aggregate principal amount of common stock, preferred stock, and Debt Securities.

Notice of the filing of the application appeared on the Commission's Daily Calendar of November 8, 1982. No protests have been received.

General, a California corporation, operates as a public utility under the jurisdiction of this Commission. General provides telephone service to customers in portions of 20 counties of California.

For the 12 months ended August 31, 1982, General reports it generated total operating revenues of $1,738,682,000 and net income of $182,544,000 shown in the application as part of Exhibit A.

Also shown as part of Exhibit A is General's Balance Sheet as of August 31, 1982 summarized as follows:

Assets	Amount
Net Telephone Plant	$3,842,233,000
Other Investments	3,404,000
Current Assets	235,220,000
Deferred Debits	42,845,000
Total	$4,123,702,000

Liabilities and Equity	
Common Equity	$1,245,428,000
Preferred Stock	194,983,000
Long-Term Debt	1,704,673,000
Current Liabilities	231,047,000
Accrued Liabilities	68,065,000
Deferred Credits	679,506,000
Total	$4,123,702,000

In its application, General wishes to be assured it will be authorized to issue and sell not more than $225,000,000 of its securities on or before December 31, 1983, for cash, in one or more series and in any combination of the following:

1. To issue and sell up to $75,000,000 (3,750,000 shares) of its Common Stock, $20 par value, to GTE Corporation, in one or more issues, on or before December 31, 1983, for cash.

2. To issue and sell, for cash, one or more series, on or before December 31, 1983, up to $50,000,000 of its Preferred Stock, par or stated value, by means of private placement. A final decision as to the method of sale, whether by private placement or negotiated public offering, will be made by General at a date closer to the actual sale. The number of issues, the exact aggregate amount, the terms, and the nature and extent of the preference of the Preferred Stock have not been negotiated. These will be determined by market conditions prevalent at the time of negotiation and sale. It is General's best estimate, based on current market conditions, that the Preferred Stock will have terms, rights, and preferences which will not vary materially from the following:

    a. Price and Par Value: Either par or a stated value, the total of which will for all shares issued not exceed $50,000,000.

    b. Dividends: Not to exceed an amount to be determined by market conditions at the date of sale.

    c. Liquidation Preference: Asset preference over common stock.

    d. Voting Rights: Only if dividends are in default.

e. Sinking Fund: If established, probably will not exceed 25 years.

f. Redemption: At the option of General, at par or stated value, plus a premium in the first year declining thereafter in about equal amounts per share for an as yet to be determined number of years with restrictions on the sources of funds from which redemption can be made.

3. To issue and sell, in one or more series, on or before December 31, 1983, up to $150,000,000 aggregate principal amount of Debt Securities. General states that because of the volatility of the capital markets and the necessity that it be able to avail itself quickly of the form of financing most suitable under the circumstances, it cannot (at this time) determine the exact form of Debt Securities it will issue, except that the maturity date(s) will exceed one year but will not exceed 30 years.

If any part of General's Debt Securities are issued and sold in the form of New Bonds, these 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 New Bonds. The form of each proposed Supplemental Indenture will be in a form similar to prior forms filed with the Commission.

General anticipates that the New Bonds will be sold for cash at a price not less than 98% nor more than 102% of the principal amount and accured interest from the issuance dates of the New Bonds. The interest rate will be determined by General's Board of Directors. The maturity date of the New Bonds will be determined by market conditions at the time of sale.

General states that if the New Bonds (or any series of them) have 30-year maturity dates, these will be redeemable at General's option, at any time or from time-to-time, prior to maturity at redemption prices ranging from an amount equal to the offering price plus a percentage of the principal amount of the 30-year New Bonds equal to their interest rate, effective during the 12-month period beginning with the date of the bonds and decreasing proportionally each 12 month thereafter to 100% of the principal amount during the year of maturity, plus accured interest. General anticipates that none of the 30-year New Bonds shall be redeemable prior to five years from their date of issuance if their redemption is for the purpose of refunding the bonds by the application of funds borrowed directly or indirectly by General at an annual cost of money less than the annual cost of money of the bonds. A similar restrictive redemption provision has been applicable to each of General's issues of Debt Securities with 30-year maturities since 1957.

General believes that present and anticipated market conditions are no more favorable for marketing 30-year bonds without the inclusion of the five year nonredemption feature. General is informed that the elimination of the nonredemption provision would result in a higher interest rate and/or other concessions which would result in a higher annual cost of money on the 30-year bonds and would tend to limit the market among large institutional investors.

If the New Bonds, or a series of them, have maturity dates of less than 30 years, these may contain different redemption features because of their shorter maturity. The redemption features will be structured according to the requirements of the financial markets at the time of the issuance of each series.

If General's long-term securities, or any part of them, are issued in a form other than as New Bonds, these Debt Securities will be issued at such times on or before December 31, 1983 and upon the terms and conditions as General's Board of Directors shall determine to be reasonable at, or immediately prior to, their date of issuance in light of the existing market conditions at the time of sale.

General states that while the total dollar amount of its proposed securities is $275,000,000, the total dollar amount of the securities it will issue in connection with this application will not exceed $225,000,000 consisting of any combination of the proposed securities. General alleges that its current intentions are to issue $75,000,000 of its common stock and $150,000,000 of Debt Securities. General states it needs the flexibility to be able to issue and sell securities in other combinations consistent with the authority requested in the application. It bases its request on the volatility of the financial markets and General's weak financial conditions which has not been helped by the recent down rating of its Debt Securities by rating agencies. General's First Mortgate Bonds are currently rated BBB by Standard & Poor's Corporation. Moody's Investors Service, Inc. has reduced the rating of General's First Mortgage Bonds from an A3 to a Baa1 and its outstanding debentures from a Baa1 to Baa2.

General believes that it needs to be able to quickly avail itself of the form of financing most reasonable under the circumstances. It is unable, at this time, to determine the exact form of Debt Securities General will issue, whether they will be secured or unsecured, but it is certain the maturity date(s) will exceed one year but will not exceed 30 years.

Request for an Exemption from Competitive Bidding

Because of the reasons previously stated, General seeks an exemption from the Commission's competitive bidding requirements so that it may issue and sell its Debt Securities by means of negotiated public offering or by private placement.

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 and the opening of 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 as close as possible to the date of sale.

In D.91984 dated July 2, 1980 for 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 group will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

The Commission's Revenue Requirements Division believes that the principles of the competitive bidding rule are valid under current economic conditions; however, because of General's low bond ratings (BBB and Baa1) and its need for large amounts of capital, the Division recommends that an exemption from the competitive bidding rule be granted at this time.

We are frankly uncertain whether strict adherence to the competitive bidding rule would prove beneficial in this instance. Consequently, for this application only, we will accept the recommendation of the Revenue Requirements Division. We will authorize General to proceed on either a competitive bid, a private placement, or a negotiated public offering.

If General chooses to issue and sell the Debt Securities by means of a private placement or a negotiated public offering, we place it on notice that in its next general rate proceeding before the Commission, the reasonbleness 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 that the resulting interest rate and cost of money were 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 Debt Securities.

General's capital ratios as of August 31, 1982 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	August 31, 1982	Pro Forma
Long-Term Debt	52.6%	51.4%
Short-Term Debt	3.1	2.8
Total Debt	55.7	54.2
Preferred Stock	6.0	5.0
Common Equity	38.3	40.8
Total	100.0%	100.0%

1. The proposed limited issuance and sale of up to $225,000,000 aggregate principal amount of securities consisting of General's planned sale of Common Stock (3,750,000 shares), $20 par value, and the proposed issuance and sale of up to $150,000,000 of Debt Securities leaving the option of substituting up to $50,000,000 of Preferred Stock, par or stated value, for one of the above and

2. The issuance and sale in October 1982 of $50,000,000 aggregate principal amount of Common Stock, $20 par value (D.82-03-021 dated March 2, 1982 in A.61155)

General has outstanding short-term debt of about $120,900,000 as of December 31, 1982. It anticipates its short-term balances as of the dates shown below and prior to the sale of its securities would be as follows:

1.	April 30, 1983 (before the anticipated issuance of $75,000,000 of Debt Securities and $50,000,000 of Common Stock).	$266,000,000
2.	September 30, 1983 (before the anticipated issuance of $75,000,000 of Debt Securities and $25,000,000 of Common Stock).	$171,000,000

The Revenue Requirements Division is concerned with General's high debt ratio which on a pro forma basis will approximate 54%. 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 amounts of equity capital is necessary to balance General's capital structure and should be given primary attention in General's future financing requirements.

Use of Proceeds

General states it wishes to issue and sell its additional securities for the following purposes:

1. Acquisition of property;
2. Construction, completion, extension or improvement of the utility's facilities;
3. Improvement or maintenance of its service;
4. Discharge in whole or in part the obligations incurred for the above purposes; and
5. Reimburse the utility for monies actually expended for capital purposes but not obtained from external sources.

General estimates the cost of its construction program, as of August 31, 1982, for calendar year 1983, will be about $744,936,000 summarized as follows:

Purpose	Amount
Buildings	$ 39,775,000
Central Office Equipment	448,821,000
Station Equipment	55,254,000
Outside Plant	185,356,000
Other-Land and General Equipment	15,730,000
Total	$744,936,000

The Commission's Revenue Requirements Division has reviewed General's application and its 1983 construction budget.

The Division has no objection to the proposed sale of General's security issues but reserves the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

The Revenue Requirements Division has analyzed General's cash requirement forecast provided the Commission in supplemental data and has concluded that internally generated funds will provide about 59% of capital expenditures in 1983. The Division has concluded that the proposed sale of General's securities is necessary to help meet forecasted cash requirements.

Findings of Fact

1. General, a California corporation, operates under the jurisdiction of this Commission.

2. The proposed common stock, preferred stock, and Debt Securities in addition to limiting the amounts to $225,000,000, in any combination, would be for proper purposes.

3. General has need for external funds for the purposes set forth in the application.

4. Authorizing General to determine the amount, timing, terms and conditions, and method of offering its proposed Debt Securities within the constraints set forth in the application would not be adverse to the public interest.

5. Exempting General's New Bonds from the Commission's competitive bidding requirements for those Debt Securities sold by means of negotiated public offering or negotiated private placement is in the public interest. General should also be authorized to make the sale of the New Bonds by means of a competitive offering.

6. Shortening to one day the period of time between the public invitations for bids and the opening of bids for General's New Bonds sold through competitive bidding is not adverse to the public interest.

7. The money, property, or labor to be procured or paid for by the proposed Debt Securities is reasonably required for the purposes set forth in the application.

8. Executing and issuing a Supplemental Indenture or Indentures would not be adverse to the public interest.

9. There is no known opposition and no reason to delay granting the authority 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 proposed security issues are for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the security issues may not be charged to operating expenses or income.

In issuing our order, we place General and its stockholders on notice that we do not regard the number of shares outstanding, the total par value of the shares, or the dividends paid as measuring the return it should be allowed to earn on its investments in plant. This authorization is not a finding of the value of General's stock or properties or 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 payment of the fee set by PU Code Sections 1904.1 and 1904(b) to enable General to issue its proposed 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, 1983, may issue, sell, and deliver, at one time or from time to time, in one or more series, up to $225,000,000 aggregate principal amount of its securities, in any combination of the following:

    a. Up to $75,000,000 aggregate principal amount of General's Common Stock (3,750,000 shares), $20 par value, to GTE Corporation, General's parent;

b. Up to $50,000,000 of General's Preferred Stock, par or stated value, for cash, by private placement or, at General option, by public offering, subject to the terms and conditions of purchase agreements to be entered into with purchasers of the preferred stock; and/or,

c. Up to $150,000,000 aggregate principal amount of General's First Mortgage Bonds, debentures, promissory notes, and/or other evidences of indebtedness (referred to as Debt Securities), in one or more series, by means of competitive bidding, negotiated public offering, or private placement.

The securities shown above may be sold under the terms and conditions set forth in the application.

2. Within 30 days after issuing, selling, and delivering any preferred stock, General shall file, with the Commission, a letter setting forth the exact aggregate amount, the terms and conditions, and the nature and extent of the preferences of the preferred stock and the form of the purchase agreements.

3. If General utilizes its option to sell the preferred stock by public offering, it shall file, as soon as available, three copies of its final prospectus relating to the preferred stock.

4. The sale of General's Debt Securities in the aggregate principal amount of up to $150,000,000 is exempted from the Commission's competitive bidding rule set forth in D.38614 dated January 15, 1946 in Case 4761, as amended. General may also issue its Debt Securities by means of competitive bidding.

5. If General's Debt Securities, or any series of them, are sold by means of 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 its Debt Securities.

6. The time period specified in D.38614, as amended, between the publication of the public invitation for bids and the opening of bids shall be reduced to one day for a sale through competitive bidding.

7. General shall use the net proceeds from the sale of its Debt Securities for the purposes referred to in the application.

8. Promptly after General ascertains the price, interest rate, and other terms pertaining to its Debt Securities, the company shall notify the Commission in writing.

9. If General's Debt Securities are sold in the form of New Bonds by competitive bidding, the company shall file a written report with the Commission showing, for each bid received, the name of the bidder, the price, the interest rate, and the cost of money to the company based on the price and interest rate.

10. If General's Debt Securities are sold by private placement or negotiated public offering, within 30 days after their issuance and sale, General shall file with the Commission a report setting forth the reason the company believes the resulting interest rate and cost of money were advantageous to the company and its ratepayers.

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

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12. The authority granted by this order to issue common stock, preferred stock, and/or Debt Securities will become effective when General pays $118,500, the fee set by PU Code Sections 1904.1 and 1904(b).

Dated FEB 16 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
06612
FEB 17 1983
$118,500.00
By

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

Joseph E. Bodovitz, Executive Director