

Decision No. 88544

MAR 7 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of General Telephone
 Company of California to issue
 and sell 1,250,000 shares of its
 Common Stock (\$20 par value);
 to issue and sell at competitive
 bidding, not exceeding \$50,000,000
 principal amount of First Mortgage
 Bonds, Due 2008, and to execute
 and deliver a Supplemental
 Indenture.

Application No. 57754
 (Filed December 19, 1977)

O P I N I O N

General Telephone Company of California seeks authority (a) to issue and sell \$25,000,000 aggregate par value of its common stock to its parent corporation, General Telephone & Electronics Corporation, a New York corporation; (b) to issue and sell at competitive bidding, not exceeding \$50,000,000 principal amount of its bonds; and (c) to execute and deliver a Supplemental Indenture.

Applicant is a California corporation engaged in the business of providing telephone service to customers in portions of 20 counties, all in the state of California. For the twelve months ended October 31, 1977, the utility reported total operating revenues of \$828,163,000 and net income of \$91,583,000.

The purpose for issuing additional securities is to reimburse the utility for monies actually expended for capital purposes but not obtained from external sources. The utility reports that as of October 31, 1977 there is \$306,775,000 of plant available for the issuance of additional securities, as set

forth in the following summary:

	<u>Amount (\$000)</u>	
Telephone Plant, Net of Depreciation		\$2,021,702
Less: Deferred Taxes	\$179,483	
Unamortized Investment Credit	<u>57,410</u>	<u>236,893</u>
Total Telephone Plant Available for the Issuance of Securities		\$1,784,809
Less Securities Outstanding:		
Proceeds from Sale of Common Stock	533,764	
Proceeds from Sale of Preferred Stock	99,113	
Principal Amount of Long-Term Debt	<u>845,157</u>	<u>1,478,034</u>
Total Telephone Plant Available for the Issuance of Additional Securities		<u>\$ 306,775</u>

Applicant estimates its short-term indebtedness as of June 30, 1978 to be approximately \$137,000,000, with all proceeds having been spent for capital purposes.

The Operations Division of the Commission staff has evaluated the recorded construction expenditures of General Telephone Company for the past two years ending December 31, 1976. The gross construction expenditures for these years, 1975 and 1976, totaled \$400,000,000. Review by the Operations Division staff of the current two-year future estimates made by General Telephone Company confirms the need for gross construction expenditure requirements in excess of \$680,000,000. This increase in construction expenditures is consistent with inflationary trends and the past and projected increase in the number of main stations. The expenditures for years 1977 and 1978, as in prior years, are required

to furnish planned additions to buildings, central office equipment, station equipment, outside plant, and other plant and equipment necessary to meet customer growth and movement, modernization and plant replacement. The distribution of these expenditures as shown in Exhibit B of this application conforms to the distribution of expenditures in past years. The Operations Division reserves the right to reconsider the reasonableness of any construction expenditures in future proceedings.

The common stock is proposed to be issued at par value to the parent corporation on or before June 30, 1978. The First Mortgage Bonds would be offered and sold pursuant to the Commission's competitive bidding requirements, also on or before June 30, 1978. Accrued interest included in the purchase of said bonds would be used for general corporate purposes. The bonds would be subject to a restricted redemption provision until five years from the date of the bonds, and would be secured by an existing Indenture as heretofore supplemented and as further supplemented by a proposed Supplemental Indenture.

Applicant's reported capitalization ratios as of October 31, 1977, and as adjusted to give effect to the proposed stock and bond issues, are summarized from Exhibit B attached to the application, as follows:

	<u>October 31, 1977</u>	<u>Pro Forma</u>
Long-Term Debt	50.23%	50.93%
Preferred Stock	5.94	5.69
Common Equity	<u>43.83</u>	<u>43.38</u>
	<u>100.00%</u>	<u>100.00%</u>

The Finance Division has reviewed the application and has concluded that the proposed financing is necessary to implement the company's construction program.

After consideration the Commission finds that:

1. The proposed stock and bonds would be for proper purposes.
2. Applicant has need for external funds for the purposes set forth in the application.
3. The proposed restricted redemption provision is reasonable.
4. The money, property or labor to be procured or paid for by the issuance of the stock and bonds 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.
5. The proposed Supplemental Indenture would not be adverse to the public interest.

There is no known opposition and there is no reason to delay granting the applicant's request. 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 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. General Telephone Company of California may execute and deliver a Supplemental Indenture in substantially the form of Exhibit C attached to the application.

2. General Telephone Company of California may invite the submission of written sealed bids for the purchase of not exceeding \$50,000,000 aggregate principal amount of its First Mortgage Bonds, due 2008.

3. General Telephone Company of California may issue, sell and deliver said bonds in the aggregate principal amount of not exceeding \$50,000,000 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 is attached to the application as a part of Exhibit D.

4. Promptly after awarding the contract for the sale of said bonds, General Telephone Company of California shall file a written report with the Commission showing, as to each bid received, the name of the bidder, the price, the interest rate and cost of money to it based upon such price and interest rate.

5. As soon as available, General Telephone Company of California shall file with the Commission three copies of its final prospectus relating to said bonds.

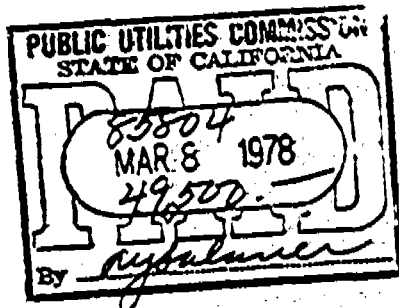
6. General Telephone Company of California, on or after the effective date hereof and on or before September 30, 1978, may issue, sell and deliver, at one time or from time to time, to General Telephone and Electronics Corporation, at par for cash, not exceeding 1,250,000 additional shares of its \$20 par value common stock.

7. General Telephone Company of California shall apply the net proceeds from the sale of said stock and bonds to the purposes set forth in the application.

8. Within thirty days after issuing, selling and delivering any of the stock or bonds herein authorized, General Telephone Company of California shall file with the Commission a statement, in accordance with General Order No. 24-B, disclosing the purposes for which the proceeds were used.

9. This order shall become effective when General Telephone Company of California has paid the fees prescribed by Sections 1904(b) and 1904.1 of the Public Utilities Code, which fees are \$31,000 and \$18,500, respectively, or a total of \$49,500.

Dated at San Francisco, California this 7th day of MARCH, 1978.



Robert Bateman
President
William Lyons Jr.
Vernon J. Steingard
Joseph P. Hoyle
Clare L. DeLoach
Commissioners