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Decision No. 89193 AUG 8 - 1978

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of General Telephone Company of California to issue and sell 1,311,810 shares of its common Stock (\$20 par value) and to issue unsecured promissory notes.

Application No. 58216 (Filed July 11, 1978)

O P I N I O N

General Telephone Company of California (General) requests authority (a) to issue and sell \$26,236,200 aggregate par value of its common stock to its parent corporation, General Telephone & Electronics Corporation, a New York Corporation<sup>1/</sup>; and (b) to issue and deliver to three banks three unsecured promissory notes in the aggregate principal amount of \$50,000,000.

General is a California corporation engaged in the business of providing telephone service to customers in portions of 20 California counties. For the twelve months ended May 31, 1978, the company reported total operating revenues of \$912,443,000 and net income of \$102,189,000.

General proposes to issue an additional 1,311,810 shares of Common Stock and \$50,000,000 of unsecured promissory notes for the purpose of reimbursing its treasury for monies actually expended for capital purposes but not obtained from external sources. The utility reports that as of May 31, 1978 there is \$340,180,000 of plant available for the issuance of additional securities, as set forth in the following summary of Exhibit B, attached to the application:

<sup>1/</sup> General Telephone and Electronics Corporation owns all of the common stock of General Telephone Company of California.

<u>Item</u>	<u>Amount</u> (Thousands of Dollars)	
Telephone Plant, Net of Depreciation		\$2,153,740
Less: Deferred Taxes	\$198,722	
Unamortized Investment Credit	<u>70,157</u>	<u>268,879</u>
Total Telephone Plant Available For The Issuance Of Securities		\$1,884,861
<u>Less Securities Outstanding:</u>		
Proceeds From Sale Of Common Stock	\$558,764	
Proceeds From Sale Of Preferred Stock	99,113	
Principal Amount Of Long-Term Debt	<u>886,804</u>	<u>1,544,681</u>
Total Telephone Plant Available For The Issuance Of Additional Securities		<u>\$ 340,180</u>

General estimates that, as of December 29, 1978, its short-term indebtedness would be approximately \$200,000,000, and that all of the proceeds from such indebtedness would have been spent for capital purposes.

The Operations Division of the Commission staff has evaluated the recorded construction expenditures of General for the two years ending December 31, 1977. The gross construction expenditures for those years, 1976 and 1977, totaled \$551,000,000. Review by the Operations Division staff of General's current two-year future estimates confirms the need for gross construction expenditure requirements in excess of \$883,000,000. These estimated construction expenditures are consistent with inflationary trends and past and projected increases 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 necessary to meet customer growth and movement, and for modernization and plant replacement. The Operations Division reserves the right, however, to reconsider the reasonableness of any construction expenditures in future proceedings.

General proposes to issue and sell the 1,311,810 shares of common stock at its par value of \$26,236,200, on or before December 29, 1978.

General also proposes to issue and deliver three unsecured promissory notes as follows:

(a) To California First Bank, an unsecured promissory note in the amount of \$10,000,000 to be issued on or about August 10, 1978, and payable on or before June 15, 1983, with interest at the rate of 8-3/4% per annum. The note would be issued under the terms and conditions and in substantially the same form as shown in Exhibit C, attached to the application. The note will provide for repayment of principal in full or in quarterly installments of \$1,000,000 commencing March 15, 1981, without penalty.

(b) To Wachovia Bank and Trust Company, N.A., an unsecured promissory note in the amount of \$10,000,000 to be issued on or about August 10, 1978, and payable on or before December 19, 1980, with interest at the rate of 8-7/8% per annum. The note would be issued in substantially the same form as shown in Exhibit D, attached to the application. Prepayment of principal without penalty may be made from the proceeds of long-term debt during the life of the note.

(c) To Citibank, N.A., an unsecured promissory note in the amount of \$30,000,000 to be issued on or about August 10, 1978, and payable on or before June 30, 1983, with interest at Citibank's "floating" prime rate or 1/2% above the interest rate payable on 90-119 day commercial paper, whichever is higher, provided, that the interest rate may not exceed 9-1/2% per annum through September 30, 1979, all as more fully described in the form of the agreement and note attached to the application as Exhibit E. The note will provide for repayment of principal in equal quarterly installments commencing March 31, 1981, with no prepayment of principal permitted prior to September 30, 1979 except in full and upon payment of a 1% cancellation fee on the entire loan, but with prepayment permitted thereafter without penalty.

General's reported capitalization ratios as of May 31, 1978, and as adjusted to reflect the proposed issue of stock and promissory notes, are summarized from Exhibit B, attached to the application, as follows:

	<u>May 31, 1978</u>	<u>Pro Forma</u>
Long-Term Debt	50.48%	51.11%
Preferred Stock	5.69	5.45
Common Equity	<u>43.83</u>	<u>43.44</u>
Total	<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 budget.

After consideration the Commission finds that:

1. The proposed issue and sale of stock, and issue of promissory notes would be for proper purposes.
2. General has need for external funds for the purposes set forth in the application.
3. The money, property or labor to be procured or paid for by the issuance of the stock and promissory notes 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.

There is no known opposition and there is no reason to delay granting General's request. On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. Because of time commitments related to the issuance of the promissory notes, and having paid fees totaling \$50,118, prescribed by Sections 1904(b) and 1904.1 of the Public Utilities Code, General requests that the order become effective on the date hereof.

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, on or after the effective date hereof and on or before December 29, 1978, may issue, sell and deliver, at one time or from time to time, to General Telephone & Electronics Corporation, at par for cash, not exceeding 1,311,810 additional shares of its \$20 par value common stock.
2. General Telephone Company of California may issue and deliver unsecured promissory notes in the aggregate principal amount not exceeding \$50,000,000, which notes shall be in substantially the same form as Exhibits C, D, and E, attached to the application.
3. General Telephone Company of California shall apply the proceeds from the sale of stock and the issuance of promissory notes to the purposes set forth in the application.
4. General Telephone Company of California shall file with the Commission 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.

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The effective date of this order is the date hereof.  
Dated at San Francisco, California, this 8th day  
of AUGUST, 1978.

Robert Bateman  
President

Verion L. Sturgeon  
Richard D. Lovell

Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Claire T. Dodrick, being necessarily absent, did not participate in the disposition of this proceeding.