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Decision No. _____

90218

APR 24 1979

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Application of General Telephone)
 Company of California to issue)
 and sell not exceeding 750,000)
 shares of Cumulative Preferred)
 Stock, and to issue and sell not)
 exceeding 750,000 shares of its)
 common Stock (\$20 par value).)

Application No. 58718
 (Filed March 5, 1979)
 And Amendment
 (Filed April 4, 1979)

O P I N I O N

General Telephone Company of California (General) seeks authority (a) to issue and sell not exceeding \$15,000,000 aggregate par value of its common stock to its parent corporation, General Telephone and Electronics Corporation, a New York Corporation,^{1/} and (b) to issue and sell by private placement, not exceeding \$75,000,000 aggregate par value of cumulative preferred stock.

General requests this authority pursuant to Sections 816 through 818 of the California Public Utilities Code. Notice of the filing of the application and amendment were published on the Commission's Daily Calendar of March 6, and April 6, 1979, respectively.

General 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 year ended December 31, 1978, the utility reported total operating revenues of \$959,781,000 and net income of \$103,448,000.

The purpose of issuing additional securities is to reimburse the utility for monies actually expended for capital purposes but not obtained from external sources. The utility

^{1/} General Telephone and Electronics Corporation owns all of the common stock of General Telephone Company of California.

reports that as of December 31, 1978 there is \$421,525,000 of plant available for the issuance of additional securities, as set forth in the following summary of Exhibit B, attached to the application:

	<u>AMOUNT (\$000)</u>
Telephone Plant, Net of Depreciation	\$2,374,751
Less: Deferred Taxes	\$228,698
Unamortized Investment Credit	<u>89,401</u>
	<u>318,099</u>
Total Telephone Plant Available for the Issuance of Securities	\$2,056,652
Less Securities Outstanding:	
Proceeds from Sale of Common Stock	\$608,764
Proceeds from Sale of Preferred Stock	99,113
Principal Amount of Long-Term Debt	<u>927,250</u>
	<u>1,635,127</u>
Total Telephone Plant Available for the Issuance of Additional Securities	<u>\$ 421,525</u>

General estimates its short-term indebtedness as of March 31, 1979 to be \$200,000,000 with all proceeds having been spent for capital purposes.

The Operations Division of the Commission's staff has evaluated the recorded construction expenditures of General for the past two years ending December 31, 1978. The gross construction expenditures for the years 1977 and 1978, totaled \$795,733,000. Review by the staff of the Operations Division of the current two-year future estimates made by General confirms the need for gross construction expenditure requirements in excess of \$1,005,630,000. This increase in construction expenditures is consistent with inflationary trends and the past and projected increase in the number of main stations. The estimated expenditures are 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, modernization and plant replacement. The Operations Division reserves the right, however, to reconsider the reasonableness of any construction expenditures in future proceedings.

The common stock is proposed to be issued at its par value of \$15,000,000 to the parent corporation on or before December 31, 1979.

The 750,000 shares of cumulative preferred stock is to be issued at its par value of \$75,000,000 in two series, with the first series not exceeding 550,000 shares and the second series not exceeding 300,000 shares. The aggregate number of shares of both series however, will not exceed 750,000 shares. Because of market conditions, General proposes to issue and sell the cumulative preferred stock by private placement. Both series of cumulative preferred stock will have a price and par value of \$100 per share. It is expected that the dividend rate for the first series may be 8.80% and for the second series 8.40%. The rights and preferences of each series are described in a proposed amendment of General's Articles of Incorporation attached to the amended application as Exhibit A, and summarized from the application as follows:

A. First Series of Preferred Stock

- (1) Price and par value: \$100 per share;
- (2) Dividend: Estimated to be 8.80% per share;
- (3) Liquidation preference: Asset preference over common stock;
- (4) Voting rights: Only if dividend in default;
- (5) Sinking Fund: To be established, with no payments for the first five years and payments thereafter through the twenty-fifth year. Weighted average life of the Sinking Fund is estimated to be 15.5 years;
- (6) Redemption: At the option of General at 100% plus a premium in the first year declining thereafter in approximately equal amounts to \$100 per share in the twentieth year, with restrictions on the sources of funds from which redemption can be made;

- (7) Restrictions on company action: General will be restricted in amending Articles of Incorporation to create any other class of shares with rights to dividends or assets senior to the new preferred stock, or to issue such shares or pay dividends thereon unless certain net income or earned surplus requirements are met.

B. Second Series of Preferred Stock

- (1) Dividends: Estimated to be 8.40%;
- (2) Sinking Fund: No payments for the first seven years with annual payments thereafter at the end of the eighth through the twelfth years, with an estimated weighted average life of ten years.
- (3) Redemption: Non-refundable for the first three years, redeemable during the fourth through tenth years as part of any refunding at a price of par plus the dividend rate, and at approximately \$100 per share thereafter.

General's reported capitalization ratios as of December 31, 1978, and as adjusted to reflect proposed common and cumulative preferred stock issues, including \$150,000,000 of first mortgage bonds, authority for which will be sought in two separate applications to be filed with this Commission, are summarized from Exhibit B attached to the application as follows:^{2/}

	<u>December 31, 1978</u>	<u>Pro forma</u>
Long-term debt	49.55%	49.70%
Preferred stock	5.34	8.26
Common equity	<u>45.11</u>	<u>42.04</u>
TOTAL	<u>100.00%</u>	<u>100.00%</u>

^{2/} General filed Application No.58747 on March 15, 1979 for authority to issue and sell not exceeding \$75,000,000 principal amount of first mortgage bonds.

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 issue of the proposed common stock and cumulative preferred stock 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 common stock and cumulative preferred stock 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.

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.

In issuing our order herein, we place General 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 31, 1979, 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 750,000 additional shares of its \$20 par value common stock.

2. General Telephone Company of California, on or after the effective date hereof and on or before December 31, 1979, may issue, sell and deliver by private placement, at par for cash, not exceeding 550,000 shares of a new series of cumulative preferred stock (\$100 par value) and not exceeding 300,000 shares of a second new series of cumulative preferred stock (\$100 par value), with the aggregate total shares of both series not exceeding 750,000.

3. General Telephone Company of California shall apply the net proceeds from the sale of said common stock and cumulative preferred stock to the purposes set forth in the application.

4. Within thirty days after issuing, selling and delivering any of the common stock or cumulative preferred stock 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.

5. 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 \$57,000.

Dated at San Francisco, California, this 24th day of APRIL, 1979.

John E. Byron
President
Vernon L. Stegman
Richard W. Gould
Alaine J. Delgado
James H. ...
Commissioners

