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Decision No. 91435 MAR 18 1980

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of General Telephone Company of California to issue and sell 3,000,000 shares of its Common Stock ($20 par value); to issue and sell not exceeding $65,000,000 par or stated value of Preferred and/or Preference Stock; to issue and sell, not exceeding $125,000,000 principal amount of First Mortgage Bonds, Series CC, Due 2010, and to execute and deliver a Supplemental Indenture.

Application No. 59401
(Filed January 24, 1980)
and
Amendment
(Filed February 20, 1980)

OPINION

General Telephone Company of California (General) seeks authority (a) to issue and sell $60,000,000 aggregate par value of its Common Stock to its parent corporation, General Telephone & Electronics Corporation, a New York corporation[1/]; (b) to issue and sell in one or more issues not exceeding $65,000,000 par or stated value of Preferred and/or Preference Stock (hereinafter Preferred Stock); (c) to issue and sell not exceeding $125,000,000 principal amount of First Mortgage Bonds (New Bonds) in one or more series; and (d) to execute and deliver a Supplemental Indenture or Indentures.

General requests this authority pursuant to Sections 816 through 818 and Section 851 of the Public Utilities Code. Notices of the filing of the Application and Amendment were published on the Commission's Daily Calendars of January 28, and February 22, 1980, respectively.

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

General is a California corporation engaged in the business of providing telephone service to customers in portions of 20 California Counties. For the 12 months ended November 30, 1979, the utility reported total operating revenues of $1,100,250,000 and net income of $113,193,000.

General's Balance Sheet as of November 30, 1979, attached to the Application as Exhibit A, is summarized as follows:

Assets	Amount
Telephone Plant Less Accumulated Depreciation	$2,698,064,000
Investments	2,707,000
Current Assets	207,892,000
Deferred Charges	29,692,000
Total	$2,938,355,000
Liabilities and Common Equity	
Common Equity	$1,084,962,000
Long-Term Debt	1,099,290,000
Current Liabilities	277,710,000
Accrued Liabilities	80,993,000
Deferred Charges	395,400,000
Total	$2,938,355,000

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 November 30, 1979, there is $406,195,000 of plant available for the issuance of additional securities, as set forth in the following summary:

		Amount
Telephone Plant, Net of Depreciation		$2,698,064,000
Less: Deferred Taxes	265,687,000	
Unamortized Investment Credit	119,372,000	385,059,000
Total Telephone Plant Available for The Issuance of Securities		$2,313,005,000
Less Securities Outstanding:		
Proceeds from Sale of Common Stock	643,764,000	
Proceeds from Sale of Preferred Stock	163,756,000	
Principal Amount of Long-Term Debt	1,099,290,000	1,906,810,000
Total Telephone Plant Available for the Issuance of Additional Securities		$ 406,195,000

General estimates its short-term indebtedness as of the dates shown below, which dates correspond with dates on which the financings will take place, to be as follows:

1.	March 31, 1980 (before the anticipated issuance of $20,000,000 of Common Stock)	$205,637,000
2.	April 30, 1980 (before the anticipated issuance of $125,000,000 of First Mortgage Bonds and $40,000,000 of Preferred Stock)	$223,837,000
3.	July 31, 1980 (before the anticipated issuance of $40,000,000 of Common Stock	$128,437,000
4.	September 30, 1980 (before the anticipated issuance of $25,000,000 of Preferred Stock)	$131,837,000

All proceeds are planned to spent for capital purposes.

The Revenue Requirements Division of the Commission's staff has evaluated the construction expenditures of General for the past two years ending December 31, 1979. The gross expenditures for the years 1978 and 1979, totaled $1,032,653,000. Review by the staff of the Revenue Requirements Division of the 1980 estimates made by General confirms the need for gross construction expenditures in excess of $610,000,000. This increase in construction expenditures is consistent with inflationary trends and the past and projected increase in the number of main stations. The 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 construction expenditures in future proceedings.

General's proposed issue of 3,000,000 shares of $20 par value Common Stock is to be sold to General's parent corporation, General Telephone & Electronics Corporation, on or before September 30, 1980.

General proposes to issue and sell, in one or more series, Preferred Stock not exceeding $65,000,000 of $100 par or stated value on or before September 30, 1980. General anticipates the Preferred Stock will be sold by private placement. A final decision as to the method of sale, whether by competitive bidding, negotiated sale, or private placement, will be made by the utility 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 to be issued by General have not yet been negotiated and will be determined by market conditions prevalent at the time of negotiation. However, 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 prior series. A summary of the terms of the issue is shown below:

a. Price and par value: Either $100 or a stated value, the total of which will for all shares issued not exceed $65,000,000.

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 twenty-five years.

f. Redemption: At the option of the utility, the stock would decline from $100 plus a premium in the first year to approximately $100 per share in the twenty-fifth year, with restrictions on the sources of funds from which redemptions can be made.

General will advise the Commission by letter, prior to the date of sale of the Preferred Stock, of the terms and conditions of the Preferred Stock to be sold by the utility.

General proposes to issue and sell, in one or more series, its First Mortgage Bonds not exceeding $125,000,000 principal amount on or before June 30, 1980. General proposes to issue the bonds pursuant to either a negotiated sale or by competitive bidding. For reasons set forth below, General requests exemption from the competitive bidding requirement of the Commission as set forth in Decision No. 38614 as amended by subsequent decisions in Case No. 4761. The New Bonds are to be issued in accordance with, secured by, and are to have the terms and conditions as set forth in the Indenture dated

December 1, 1939, executed and delivered by the utility to Security Pacific National Bank, as Trustee, as amended by Supplemental Indentures, and the proposed Supplemental Indenture dated April 1, 1980 and attached to the Application as Exhibit C. Exhibit C provides among other things that the New Bonds may not be redeemed for a period of five years.

General's reasons for requesting exemption from the competitive bidding requirement as set forth in the Application are as follows:

a. High demand for funds by borrowers, together with interest rates at or near all-time highs, have created conditions whereby lenders are very selective in credit markets.

b. In September 1979, Standard and Poor's, a securities rating agency, downgraded Applicant's credit rating for First Mortgage Bonds from A+ to A, sinking fund debentures from BBB- to BBB, and preferred stock from A+ to A-, and there is a strong possibility of further downgrading prior to the sale of the New Bonds.

c. General's times interest coverage declined to the extent that in March, 1980, the utility will not meet the earnings to fixed charges of not less than 2.25 to 1 coverage requirements of a $30,000,000 promissory note, thereby permitting the lender to call the loan.

General states that the above conditions require it to have greater flexibility in determing the method of sale of the New Bonds, i.e. by negotiated sale or by competitive bidding in the best interest of the utility and its shareholders.

General states in the Application that the pre-offering marketing efforts will aid in the successful sale of the New Bonds because underwriters and dealers who are part of a negotiating group can more precisely ascertain in advance the marketability of the offering. General states that under competitive bidding, pre-marketing efforts are not as effective since each bidding group does not know that it will be the successful bidder until after the bids are received, thus, the cost of money to General in a negotiated transaction may be lower where pre-marketing efforts have been made.

General alleges, that due to the market conditions and the utility's credit rating, it must have flexibility to make decisions concerning the timing of the offering in order to control the offering as close to the proposed date of sale as possible. General states it can obtain more flexibility through a negotiated sale than would be the case if the sale were subject to competitive bidding.

General states that the size of the offering of its New Bonds is such that their marketability and distribution will be enhanced by participation from as large a group of underwriters and dealers as possible. General believes competitive bidding would restrict the available number of underwriters and dealers and would result in segmented bidding groups which would result in a smaller group of bidders and the cost to the utility would be higher as a result.

General's capital ratios reported as of November 30, 1979, and as estimated as of September 30, 1980 after giving effect to the proposed issuance of 3,000,000 shares of Common Stock at $20 par value to produce net proceeds of $60,000,000; the proposed issuance and sale of $65,000,000 par or stated value of Preferred and/or Preference Stock; and the issue or issues and sale of $125,000,000 principal amount of First Mortgage Bonds are summarized as follows from Exhibit B, attached to the Application:

	November 30, 1979	Pro Forma
Long-Term Debt	50.3%	50.3%
Preferred Stock	7.6	9.4
Common Equity	42.1	40.3
Total	100.0%	100.0%

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

Findings of Fact

1. General is a California corporation operating under the jurisdiction of this Commission.

2. The proposed Common Stock, Preferred Stock or Preference Stock and First Mortgage Bonds, would be for proper purposes.

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

4. The proposed five-year restricted redemption provision, for the First Mortgage Bonds, is reasonable.

5. The money, property or labor to be procured or paid for by the issuance and sale of Common Stock, Preferred Stock and the First Mortgage Bonds, 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.

6. The sale of the proposed bonds should not be required to be through competitive bidding.

7. The proposed Supplemental Indenture would not be adverse to the public interest.

8. 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.

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 granted herein is not to be construed 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 September 30, 1980, may issue, sell and deliver, at one time or from time to time, to General Telephone & Electronics Corporation, at par for cash, not exceeding 3,000,000 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 September 30, 1980 may issue, sell and deliver $65,000,000 par or stated value of Preferred Stock by private placement, or at General's option by negotiated sale or competitive bidding, in one or more series, and subject to terms and conditions of a purchase agreement to be entered into with purchasers of the Preferred Stock.

3. Within 30 days after issuing, selling and delivering any Preferred Stock, General Telephone Company of California 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.

4. In the event General Telephone of California utilizes its option to sell the Preferred Stock either by competitive bidding or by a negotiated offering, it shall file as soon as available three copies of its final prospectus relating to the Preferred Stock.

5. General Telephone Company of California may execute and deliver a Supplemental Indenture or Indentures in substantially the form of Exhibit C attached to the Application.

6. On or before June 30, 1980, General Telephone Company of California may issue, sell and deliver, in one or more series, its First Mortgage Bonds in the aggregate principal amount not exceeding $125,000,000 at a price obtained by negotiated sale, or if by

competitive bidding, at the price or prices 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.

7. The sale by General Telephone Company of California of its First Mortgage Bonds in the aggregate principal amount not exceeding $125,000,000, is hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, in Case No. 4761.

8. If the First Mortgage Bonds are sold by competitive bidding, General Telephone Company of California shall file a written report with the Commission promptly after awarding the contract for the sale of First Mortgage Bonds 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.

9. As soon as available, General Telephone Company of California shall file with the Commission three copies of its final prospectus relating to the First Mortgage Bonds.

10. General Telephone Company of California shall apply the net proceeds from the sale of the Common Stock, Preferred Stock, and the First Mortgage Bonds to the purposes set forth in the Application.

11. Within thirty days after issuing, selling and delivering any of the Common Stock, Preferred Stock, or First Mortgage 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.

12. This order shall become effective when General Telephone Company of California has paid the fee prescribed by Section 1904(b) and 1904.1 of the Public Utilities Code, which fee is $143,000.

Dated MAR 18 1980, at San Francisco, California.

President

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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143,000
By

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