

RR/lq

ORIGINAL

Decision No. 92416 NOV 18 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of General Telephone Company of California to issue and sell, at competitive bidding, not exceeding \$150,000,000 principal amount of First Mortgage Bonds, and to execute and deliver a Supplemental Indenture.

Application No. 59919 (Filed September 3, 1980) and Amendments (Filed October 9, 1980 and October 29, 1980)

O P I N I O N

General Telephone Company of California (General), by ^{its original} ~~this~~ application ~~as amended~~, seeks authority (a) to issue and sell, at competitive bidding, and/or private placement not exceeding \$150,000,000 principal amount of First Mortgage Bonds; and (b) to execute and deliver Supplemental 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 amendments were published on the Commission's Daily Calendars of September 8, October 10, and 29, 1980. The Commission has received no protests in the proceeding.

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 12 months ended July 31, 1980, the utility reported total operating revenues of \$1,168,138,000 and net income of \$64,686,000.

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

A.59919 RR/1q *

of July 31, 1980, there is \$462,954,000 of plant available for the issuance of additional securities, as set forth in the following summary:

	<u>Amount</u>	
	(Thousands of Dollars)	
Telephone Plant, Net of Depreciation		\$2,973,612
Less: Deferred Taxes		
Unamortized Investment Credit	\$ 277,106	
	<u>144,075</u>	<u>421,181</u>
Total Telephone Plant Available for the Issuance of Securities		\$2,552,431
Less Securities Outstanding:		
Proceeds from Sale of Common Stock	703,764	
Proceeds from Sale of Preferred Stock	163,756	
Principal Amount of Long-Term Debt	<u>1,221,957</u>	<u>2,089,477</u>
Total Telephone Plant Available for the Issuance of Additional Securities		<u>\$ 462,954</u>

General estimates its short-term indebtedness as of October 31, 1980 (before the anticipated issuance of \$150,000,000 of new bonds for which approval is being sought) to be \$215,000,000, with all proceeds having been spent for capital purposes.

General states that it has a need for gross construction expenditures in 1980 in excess of \$650,000,000, and that the proposed financing is necessary to implement the company's construction program. 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 of the Commission's staff has evaluated the proposed construction expenditures of General and finds them to be reasonable. The Revenue Requirements Division reserves the right, however, to reconsider the reasonableness of any construction expenditures in future rate proceedings.

General proposes to issue and sell pursuant to the Commission's competitive bidding requirements and/or by private placement, on or before February 28, 1981 not exceeding \$150,000,000 principal amount of one or more series of its First Mortgage Bonds. Applicant presently contemplates the bonds will be issued in two series. One series will be designated "First Mortgage Bonds, Series EE" and will have a maturity of not to exceed ten years. Another series will be designated "First Mortgage Bonds, Series FF" and will have a maturity of not to exceed thirty years. The bonds would be secured by an existing Indenture, as heretofore supplemented and as further supplemented by a proposed Supplemental Indenture for each series issued. A copy of the form of the Supplemental Indenture to be used is attached to the application as Exhibit D.

It is proposed that the bonds will be sold for cash at a price not less than 98% nor more than 102% of the principal amount thereof, plus accrued interest from the date of the bonds, and at an interest rate to be determined by General's Board of Directors. The Series FF Bonds are to be redeemable at the option of the Applicant at any time, and from time to time, prior to maturity at redemption prices ranging from an amount equal to the public offering price plus a percentage of the principal amount of the Series FF Bonds equal to their interest rates, effective during the 12-month period beginning with the date of the Series FF Bonds and decreasing proportionally each 12 months thereafter to 100% of the principal amount of the Series FF Bonds during the year of maturity, plus in each case accrued interest, as more fully provided in the Invitation for Bids. It is proposed to provide, however, that none of the Series FF Bonds shall be redeemed prior to five years from the date of the Series FF Bonds, if such redemption is for the purpose or in anticipation of refunding such Series FF Bonds by the application, directly or indirectly, of funds borrowed by the Applicant at an annual cost of money less than the annual cost of money of such Series FF Bonds. A similar restrictive redemption provision has been applicable to each of Applicant's issues of debt securities since 1957. Applicant is informed and believes and, therefore, alleges that present conditions

prevailing in the market where Applicant must secure its funds are no more favorable at the present time for marketing the Series FF Bonds without the inclusion of the five-year nonredemption feature than they were at the time of issuance of any of said debt securities. Applicant is further informed and believes that the elimination of said nonredemption provision would require a higher interest rate or other concessions resulting in a higher annual cost of money on said Series FF Bonds and would tend to limit the market therefor among large institutional investors. The Series EE Bonds will not be redeemable as a whole or in part at any time prior to December 1, 1985 for any purpose, but shall be redeemable thereafter, at the option of Applicant, at redemption prices which will include a redemption premium, plus accrued interest.

The application, as amended, indicates that General's management believes, based on information received from its financial advisers, that sale of all or part of the \$150,000,000 First Mortgage Bonds by private placement rather than through competitive bidding may enable the utility to obtain a more favorable interest rate on the bonds. Among other things, a private placement should enable General to tailor the maturity schedule of the bonds sold to the preference of the institutional purchasers in exchange for a more favorable interest rate than would otherwise be available if that amount of bonds were financed through competitive bidding. General, therefore, according to the market condition, requests an exemption from the competitive bidding rule for the issuance and sale of the \$150,000,000 First Mortgage Bonds.

In Decision No. 91984, dated July 2, 1980 for the San Diego Gas & Electric Company, Application No. 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 will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

Because of the possibility that the proposed bonds will be sold by private placement on terms which will be negotiated after the issuance of this decision and because of the staff's conclusion and belief that the bonds will be sold at a cost as low, if not lower, than would prevail if the bonds were to be sold at competitive bidding, we are of the opinion that applying, in this proceeding, the Commission's competitive bidding requirements and conditions set forth in Decision No. 91984, would not be in the best interests of General or its ratepayers. The rule would not operate in a manner so as to allow General's sale of the new bonds at the most favorable cost of money.

General is put on notice that in its next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized and may result in a disallowance of 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 that the resulting interest rate and cost of money were the most 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 proposed bonds.

General's capitalization ratios reported as of July 31, 1980, and as estimated as of December 31, 1980, giving effect to the proposed bond issue, are summarized from Exhibit B attached to the application, as follows:

	<u>Recorded</u> <u>July 31, 1980</u>	<u>Pro Forma</u> <u>at December 31, 1980</u>
Long-Term Debt	51.60%	53.40%
Preferred Stock	7.00	7.60
Common Equity	<u>41.40</u>	<u>39.00</u>
	<u>100.00%</u>	<u>100.00%</u>

A.59919 RR/lq *

Findings of Fact

1. General is a California corporation operating under the jurisdiction of this Commission.
2. The proposed bonds would be for proper purposes.
3. General has need for external funds for the purposes set forth in the application.
4. The proposed restricted redemption provision is reasonable.
5. The money, property or labor to be procured or paid for by the issuance of the 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.
6. The proposed Supplemental Indentures would not be adverse to the public interest.
7. The issue and sale of the proposed bonds is not required to be by competitive bidding.
8. There is no known opposition and no reason to delay granting General's request.

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 authorization granted herein is for the purposes of this proceeding only, and 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 may execute and deliver a Supplemental Indenture or Indentures in substantially the form of Exhibit D attached to the application.

2. General Telephone Company of California may invite the submission of written sealed bids for the purchase of not exceeding \$150,000,000 aggregate principal amount in one or more series of First Mortgage Bonds, with a maturity of not to exceed 30 years.

3. On or before February 28, 1981, 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 \$150,000,000 at a price obtained by private placement, 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 E.

4. The sale by General Telephone Company of California of its First Mortgage Bonds in the aggregate principal amount not exceeding \$150,000,000, 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.

5. 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.

6. If the First Mortgage Bonds are sold on a private placement basis, General Telephone Company of California shall file a copy of the contract and a written report with the Commission showing the interest rate and cost of money to it based upon such price and interest rate.

A.59919 RR/lq

7. 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.

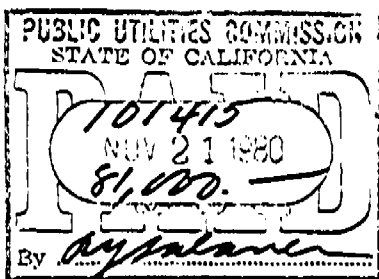
8. Within thirty days after the issuance and sale of the First Mortgage Bonds herein authorized, General Telephone Company of California shall file with the Commission a report showing that the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

9. General Telephone Company of California shall apply the net proceeds from the sale of the First Mortgage Bonds to the purposes set forth in the application.

10. Within 30 days after issuing, selling and delivering the 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.

11. This order shall become effective when General Telephone Company of California has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$81,000.

Dated NOV 18 1980, at San Francisco, California.



John E. Bryan
President
Bryan L. Livingston
Richard D. Howell
Clair T. ...
...
Commissioners