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ORIGINAL

Decision No. \_\_\_\_\_

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of General Telephone Company of California to issue and sell not exceeding 4,500,000 shares of its Common Stock (\$20 par value); to issue and sell not exceeding \$50,000,000 par or stated value of Preferred Stock; and to issue and sell not exceeding \$250,000,000 principal amount of First Mortgage Bonds in one or more series, and to execute and deliver a Supplemental Indenture(s).

Application No. 60163  
(Filed December 30, 1980)

O P I N I O N

General Telephone Company of California (General) seeks authority, pursuant to Sections 816 through 818 and 851 of the Public Utilities Code, for the following:

1. To issue and sell for cash \$90,000,000 aggregate par value of General's Common Stock, \$20 par value, to its parent corporation, General Telephone & Electronics Corporation, a New York corporation; 1/
2. to issue and sell for cash, in one or more series, General's Preferred Stock, \$100 par or stated value, not to exceed \$50,000,000;
3. to issue and sell for cash not to exceed \$250,000,000 principal amount of General's First Mortgage Bonds (New Bonds) in one or more series; and
4. to execute and deliver a Supplemental Indenture or Indentures.

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

In connection with this proceeding, General paid a fee of \$213,000. However, the fee prescribed by Sections 1904(b) and 1904.1 of the Public Utilities Code is \$196,000, after taking credit for the refunding of \$10,000,000 principal amount of First Mortgage Bonds, due in October 1980. General is, therefore, entitled to a refund of \$17,000.

Notice of the filing of the application appeared on the Commission's Daily Calendar on January 6, 1981. No protests have been received.

General, a California corporation, engages in the business of providing telephone service to its customers located in portions of 20 California Counties. For the twelve months ended November 30, 1980, General reports it generated total operating revenues of \$1,215,094,000 and net income of \$64,452,000, as shown in the application as part of Exhibit A.

General's Balance Sheet as of November 30, 1980, shown in the application as part of Exhibit A, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Telephone Plant	\$3,075,076,000
Other Investments	3,347,000
Current Assets	267,967,000
Deferred Debits	39,229,000
Total	<u>\$3,385,619,000</u>
 <u>Liabilities and Equity</u>	
Common Stock Equity	980,671,000
Preferred Stock	194,983,000
Long-Term Debt	1,221,059,000
Current Liabilities	429,717,000
Accrued Liabilities	96,298,000
Deferred Charges	462,891,000
Total	<u>\$3,385,619,000</u>

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 reports that as of November 30, 1980, there is \$505,408,000 of plant available for the issuance of additional securities, as set forth in the application as part of Exhibit B and as shown in the following summary:

	<u>Amount</u>
Telephone Plant, Net of Depreciation	\$3,075,076,000
Less: Deferred Taxes	\$ 294,484,000
Unamortized Investment Credit	<u>157,017,000</u>
	<u>451,501,000</u>
Total Telephone Plant Available for the Issuance of Securities	\$2,623,575,000
Less Securities Outstanding:	
Proceeds from Sale of Common Stock	\$ 703,764,000
Proceeds from Sale of Preferred Stock	193,344,000
Principal Amount of Long-Term Debt	<u>1,221,059,000</u>
	<u>2,118,167,000</u>
Total Telephone Plant Available for the Issuance of Additional Securities	<u>\$ 505,408,000</u>

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:

- a. March 31, 1981 (before the anticipated issuance of \$35,000,000 of Common Stock and \$150,000,000 of First Mortgage Bonds). \$266,139,000
- b. June 30, 1981 (before the anticipated issuance of \$50,000,000 of Preferred Stock). \$215,224,000
- c. November 30, 1981 (before the anticipated issuance of \$55,000,000 of Common Stock and \$100,000,000 of First Mortgage Bonds). \$250,035,000

All proceeds are planned to be spent for capital purposes.

The staff of the Commission's Revenue Requirements Division has evaluated General's construction expenditures totaling \$659,000,000 for calendar year 1980. The staff has also reviewed General's gross construction expenditure estimates for 1981 and 1982 estimated as of October 20, 1980, and summarized as follows:

<u>Purpose</u>	<u>1981</u>	<u>1982</u>
Buildings	\$ 18,585,000	\$ 19,583,000
Central Office Equipment	353,852,000	352,542,000
Station Equipment	177,221,000	236,388,000
Outside Plant	141,969,000	153,871,000
Other (Land and General Equipment)	<u>12,098,000</u>	<u>15,409,000</u>
Total	<u>\$703,725,000</u>	<u>\$777,793,000</u>

The staff concludes that the estimated construction expenditures are reasonable and has no objection to the proposed security issues specified in the application. The division reserves the right, however, to reconsider the reasonableness of any construction expenditures in the current or future rate proceedings.

The application indicates that General's management believes, based on information received from its financial advisers, that the sale of all or part of the \$250,000,000 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, requests an exemption from the competitive bidding rule for the issuance and sale of the \$250,000,000 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 capital ratios reported as of November 30, 1980, and as estimated as of December 31, 1981, after giving effect to the following:

1. The proposed issue or issues and sale of not to exceed \$250,000,000 principal amount of General's First Mortgage Bonds;
2. the proposed issuance and sale of not to exceed \$50,000,000 principal amount of General's Preferred Stock, \$100 par or stated amount;
3. the proposed issuance and sale of not to exceed 4,500,000 shares of General's Common Stock, \$20 par value, to produce net proceeds of \$90,000,000;
4. the issuance and sale of \$100,000,000 of First Mortgage Bonds, Series E, on December 1, 1980; 1/
5. the issuance and sale of 1,250,000 shares of Common Stock on December 31, 1980, providing net proceeds of \$25,000,000; and
6. the retirement of \$10,000,000 of First Mortgage Bonds, Series G, on October 1, 1981, 2/

are summarized as follows from Exhibit B, attached to the application:

	<u>November 30, 1980</u>	<u>Pro Forma</u>
Long-Term Debt	50.9%	52.1%
Preferred Stock	8.2	8.3
Common Equity	<u>40.9</u>	<u>39.6</u>
Total	<u>100.0%</u>	<u>100.0%</u>

General's proposed issue of 4,500,000 shares of \$20 par value Common Stock is to be sold to General's parent corporation, General Telephone & Electronics Corporation, on or before December 31, 1981.

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1/ Decision No. 92416, dated November 16, 1980, in Application No. 59919.

2/ Exhibit A, Page 5, Item (d).

General proposes to issue and sell, in one or more series, Preferred Stock not to exceed \$50,000,000 of \$100 par or stated value on or before December 31, 1981. General anticipates the Preferred Stock will be sold by private placement. A final decision as to the method of sale, whether by public offering 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 proposed 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 \$50,000,000.
- 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, will not exceed a number of years to be determined.
- f. Redemption: At the option of the utility, at par or stated value plus a premium in the first year declining thereafter in approximately equal amounts per share for an as yet undetermined number of years with restrictions on the sources of funds from which redemptions can be made.

General will advise the Commission by letter, after 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 to exceed \$250,000,000 principal amount on or before December 31, 1981. It is anticipated the maturity dates of the New Bonds will not exceed 30 years. General proposes to issue the bonds in either a private placement 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 as of the date of issuance and attached to the application as Exhibit C. If the New Bonds, or a series thereof, have a 30-year maturity, they will contain a provision, among other things, that the New Bonds may not be redeemed at a lesser cost of money for a period of five years. New Bonds, or series thereof, of shorter maturities shall contain redemption provisions consistent with the requirements of the financial markets at the time of sale of the New Bonds.

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, 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 redemption provisions, for the First Mortgage Bonds, are 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 First Mortgage Bonds should not be required to be through competitive bidding.

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

8. General has overpaid the fee to the Commission in the amount of \$17,000. General is entitled to a refund of \$17,000.

9. 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 or the dividends paid as measuring the return it should be allowed to earn on its investment in plant. 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 December 31, 1981, may issue, sell, and deliver, at one time or from time to time, to General Telephone & Electronics Corporation, at par for cash, not to exceed 4,500,000 additional shares of its Common Stock, \$20 par value.

2. General Telephone Company of California on or after the effective date hereof and on or before December 31, 1981, may issue, sell, and deliver for cash \$50,000,000 par or stated value of Preferred Stock by private placement or, at General's option, by public offering, in one or more series, subject to the terms and conditions of purchase agreements 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 and the form of the purchase agreement.

4. In the event General Telephone Company of California utilizes its option to sell the Preferred Stock by public 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 December 31, 1981, General Telephone Company of California may issue, sell, and deliver for cash, in one or more series, its First Mortgage Bonds in the aggregate principal amount not to exceed \$250,000,000 at a price obtained by private placement or, if by competitive bidding, 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, in substantially the form to be used, 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 to exceed \$250,000,000, 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 for the limited purpose of permitting the sale of General's First Mortgage Bonds, or any series thereof, by private placement.

8. If the First Mortgage Bonds, or any series thereof, 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 the 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. If the First Mortgage Bonds are sold on a private placement basis, General Telephone Company of California shall file a copy of the purchase agreement and a written report with the Commission showing the interest rate and cost of money to General based upon the price and interest rate.

10. If the First Mortgage Bonds are sold on a private placement basis, within thirty days after their issuance and sale, 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.

11. If the First Mortgage Bonds, or any series thereof, are sold by competitive bidding, 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.

12. 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.

13. Within 30 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.

14. The effective date of this order is the date hereof since 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 \$196,000, after taking credit for the retirement of \$10,000,000 principal amount of First Mortgage Bonds due in October 1981.

15. A refund of \$17,000 be made to General Telephone Company of California to cover an overpayment of the fee prescribed by Sections 1904(b) and 1904.1 of the Public Utilities Code.

Dated FEB 18 1981, at San Francisco, California.

John E. Gurnea  
President  
Michael D. Goshall  
James M. James  
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Commissioners