

Decision 93381 AUG 4 1981

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of General Telephone )  
 Company of California to issue, )  
 sell and deliver one or more )  
 series of its First Mortgage Bonds )  
 debentures, promissory notes )  
 and/or other evidences of indebt- )  
 edness in an aggregate principal )  
 amount outstanding at any one time )  
 not exceeding \$75,000,000 and to )  
 execute and deliver one or more )  
 Supplemental indentures. )

Application 60623  
(Filed June 1, 1981)

O P I N I O N

General Telephone Company of California (General) seeks authority:

1. To issue and sell, in one or more series, by either competitive bidding, negotiated public offering, or by private placement, not to exceed \$75,000,000 principal amount of its First Mortgage Bonds, debentures, promissory notes and/or other evidences of indebtedness (here called Debt Securities) and
2. To execute and deliver a supplemental indenture.

General requests this authority under Public Utility (PU) Code Sections 816 through 818 and 851. Notice of the filing of the application was published on the Commission's Daily Calendar of June 8, 1981. No protests have been received.

General is a California corporation engaged in the business of providing telephone service to customers in portions of 20 counties

in California. For the 12 months ended March 31, 1981, General reported total operating revenues of \$1,289,839,000 and net income of \$110,452,000.

General alleges that because of the volatility of capital markets, and its need to quickly avail itself of the form of financing most reasonable under the circumstances, it is unable to determine at this time the exact form of the Debt Securities, whether secured or unsecured, except that the maturity date will exceed one year, but will not exceed thirty years.

The purpose of issuing additional Debt 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 March 31, 1981, there is \$494,703,000 of plant available for the issuance of additional securities.

General estimates its short-term indebtedness as of December 31, 1981 to be \$114,300,000, with all the proceeds having been spent for capital purposes.

Review by the Revenue Requirements Division of General's 1981 estimate of construction expenditures confirms the need for construction expenditures in excess of \$554,272,000. The Revenue Requirements Division has concluded that the proposed financing is necessary to implement the company's construction program. General's estimated construction expenditures are 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 sets forth various reasons to justify its request to issue and sell Debt Securities by private placement or negotiated public offering. The reasons cited include the volatility of current financial markets, investor selectivity based on perceived credit worthiness of borrowing utilities, General's current weak financial posture and substantial external financing requirements, the need for flexibility in financial decision-making, and opportunity to advantageously premarket a large debt issue. General seeks exemption from the Commission's competitive bidding rule.

In Decision (D.) 91984, dated July 2, 1980 for the San Diego Gas & Electric Company, Application (A.) 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.

We are frankly uncertain whether under current volatile conditions, unfavorable to the issuer of corporate debt, strict adherence to the competitive bidding rule would prove beneficial. Consequently for this application only we will authorize General to proceed on either a competitive bid, a private placement, or a negotiated public offering, according to General's estimation of where the most favorable opportunity lies.

If General chooses to issue and sell the proposed Debt Securities by means of a negotiated public offering or by a private placement, we place General 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 the 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 of why General believes 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 Debt Securities.

General's capital ratios reported as of March 31, 1981, and estimated as of December 31, 1981, giving effect to the proposed issue of Debt Securities are summarized from Exhibit B, attached to the application as follows:

	<u>March 31, 1981</u>	<u>Pro Forma</u>
Long-term Debt	50.9%	53.5%
Preferred Stock	7.6	7.4
Common Equity	41.5	39.1
Total	<u>100.0%</u>	<u>100.0%</u>

The Revenue Requirements Division is concerned with General's high debt ratio which on a pro forma basis will approximate 54%. In the past the Revenue Requirements Division and the Commission have stressed the importance of utilities to maintain a balanced capital structure in order to be financially sound, to maintain financial flexibility, and to be able to attract capital at reasonable rates. The Division believes that additional amounts of equity capital is necessary to balance General's capital structure, and should be given primary attention in General's future financing requirements.

General requests, in the event conditions in the financial markets warrant the issuance and sale of the Debt Securities by competitive bidding, that the period of time required by the competitive bidding rule for notification of an invitation for bids be reduced from five days to one day. This reduced time interval is

required because decisions relative to the method by which a financing takes place in today's volatile financial markets must be made close as possible to the date of sale.

If the Debt Securities, or any part of them are issued and sold as First Mortgage Bonds (Mortgage Bonds) they will be issued in accordance with, secured by, and will have terms and conditions as set forth in the Indenture dated December 1, 1939, executed and delivered by General to Security Pacific National Bank, as Trustee, as amended by supplemental indentures, and a proposed supplemental indenture for each series of the Mortgage Bonds to be dated as of the date or dates of issuance of the Mortgage Bonds. The form of each supplemental indenture to be used will be in a form similar to prior forms of supplemental indentures filed with the Commission. The latest form of the supplemental indenture was filed December 30, 1980 as Exhibit C to A.60163.

Findings of Fact

1. General is a California corporation operating under the jurisdiction of this Commission.
2. The proposed Debt Securities would be for proper purposes.
3. General has need for external funds for the purposes set forth in the application.
4. In the event that the Debt Securities are sold under the Commission's competitive bidding rule, General's request that the

period of time required by the rule for notification of an invitation for bids be reduced from five days to one day is reasonable and would not be adverse to the public interest.

5. The money, property or labor to be procured or paid for by the issuance of the Debt Securities authorized is reasonably required for the purposes specified. Proceeds from the issuance of these securities may not be charged to operating expenses or income.

6. The proposed supplemental indenture would not be adverse to the public interest.

7. There is no known opposition and no reason to delay granting the authorizations 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.

The authorizations granted by this decision are for the purposes of this proceeding only, and are not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

The following order should be effective on the date of signature to enable General to issue its Debt Securities expeditiously.

O R D E R

IT IS ORDERED that:

1. On or before December 31, 1981, General Telephone Company of California (General) may issue, sell and deliver for cash, in one or more series, its First Mortgage Bonds, debentures, promissory notes and/or other evidences of indebtedness in the aggregate principal amount up to \$75,000,000 at a price obtained either by private placement, by a negotiated public offering 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 C. The time period between the publication of the public invitation for bids and the opening of bids, if required, shall be not less than one day.

2. General may execute and deliver a supplemental indenture or indentures in substantially the form of supplemental indentures filed in connection with previous applications, the latest of which was A.60163 filed on December 30, 1980.

3. The sale by General of its First Mortgage Bonds, debentures, promissory notes and/or other evidences of indebtedness in the aggregate principal amount up to \$75,000,000 is exempted from the Commission's competitive bidding rule set forth in D.38614, dated January 15, 1946, as amended, in Case 4761 for the limited purpose of



permitting the sale of General's First Mortgage Bonds, debentures, promissory notes and/or other evidences of indebtedness, or any series of them or by private placement, or by a negotiated public offering.

4. If the First Mortgage bonds, debentures, promissory notes and/or other evidences of indebtedness are sold on a private placement basis or by a negotiated public offering, within 30 days after their issuance and sale, General shall file with the Commission a report setting forth the reason that General believes the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

5. If the First Mortgage Bonds, debentures, promissory notes and/or other evidences of indebtedness, or any series of them are sold by competitive bidding or by a negotiated public offering, as soon as available, General shall file with the Commission three copies of if its final prospectus relating to the issuance of Debt Securities.

6. If the Debt Securities are sold on a private placement basis or by a negotiated public offering, within 30 days after their issuance and sale, General shall file with the Commission a report setting forth the reason that General believes the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

7. General shall apply the net proceeds from the sale of the First Mortgage Bonds, debentures, promissory notes and/or other evidences of indebtedness to the purposes set forth in the application.

8. General shall file the reports required by General Order Series 24.

9. This order shall be effective upon payment of the \$43,500 fee set by Section 1904 (b) of the PU Code.

Dated           AUG 4 1981          , at San Francisco, California.

          John E. Guyon            
President  
          Richard L. Smith            
          Thomas W. Jones            
          Victor L. Baker            
          Francis A. Hill            
Commissioners

