

CACD/BWJ

Decision 88 12 071 DEC 19 1988**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GTE California)
 Incorporated to issue and sell)
 not exceeding 2,250,000 shares)
 of its Common Stock (\$20 par)
 value).)
(U 1002 C)

Application 88-10-006
 (Filed October 3, 1988)

OPINIONSummary of Decision

This decision grants GTE California Incorporated (GTEC) the authority requested in the application.

GTEC requests authority, under Public Utility (PU) Code Sections 816 through 830 and 851, to issue and sell up to \$45,000,000 aggregate principle amount of GTEC's Common Stock (2,250,000 shares), \$20 par value, for cash to GTE Corporation, parent and holder of all of GTEC's outstanding Common Stock.

Notice of the filing of the application appeared on the Commission's Daily Calendar of October 6, 1988. No protests have been received.

GTEC, a California corporation and wholly owned subsidiary of GTE Corporation, operates as a public utility under the jurisdiction of this Commission. GTEC provides telephone service to customers in portions of 20 counties of California.

For the year ended December 31, 1987, GTEC reports it generated total operating revenues of \$2,770,337,000 and net income of \$367,023,000 as shown in Exhibit A to the Application.

Also shown as part of Exhibit A is GTEC's Balance Sheet as of December 31, 1987 summarized as follows:

| <u>Assets</u> | <u>Amount</u> |
|---------------------|--------------------|
| Net Telephone Plant | \$4,977,575,000 |
| Other Investments | 70,792,000 |
| Current Assets | 310,820,000 |
| Deferred Debits | <u>108,275,000</u> |
| Total | \$5,467,462,000 |

Liabilities and Equity

| | |
|---------------------|----------------------|
| Common Equity | \$2,162,788,000 |
| Preferred Stock | 115,983,000 |
| Long-Term Debt | 1,620,083,000 |
| Current Liabilities | 450,766,000 |
| Accrued Liabilities | 110,818,000 |
| Deferred Credits | <u>1,007,024,000</u> |
| Total | \$5,467,462,000 |

Issuance and Sale of GTEC's Common Stock

GTEC proposes to issue and sell up to \$45,000,000 (2,250,000 shares) of its Common Stock, \$20 par value, to GTE Corporation, in one or more issues, on or before December 31, 1989, for cash.

Capitalization Ratios

GTEC's capital ratios reported as of December 31, 1987 are shown below as recorded and as adjusted to give pro forma effect to the transactions that follow:

| <u>Component</u> | <u>December 31, 1987</u> | <u>Pro Forma</u> |
|------------------|--------------------------|------------------|
| Long-Term Debt | 40.5% | 39.0% |
| Short-Term Debt | <u>2.5</u> | <u>2.0</u> |
| Total Debt | 43.0% | 41.0% |
| Preferred Stock | 2.9 | 2.7 |
| Common Equity | <u>54.1</u> | <u>56.3</u> |
| Total | 100.0% | 100.0% |

1. The proposed issuance and sale of GTEC's Common Stock to GTE Corporation in the aggregate principal amount of up to \$45,000,000;
2. The retirement at maturity of about \$23,000,000 aggregate principle amount of outstanding long-term debt;
3. The decrease of short-term borrowing of about \$19,979,000;
4. Sinking fund payments of \$4,000,000 on Preferred Stock;
5. The estimated increase in earned surplus of \$101, 836,000 for the calendar year ending December 31, 1988.

GTEC has outstanding short-term debt of about \$99,734,000 as of December 31, 1987. After giving effect to the proposed financing, GTEC anticipates that its short-term debt balance as of December 31, 1988 will be about \$79,755,000. GTEC also has unexercised authority granted by Decision 87-04-047 to issue up to \$200,000,000 of long term debt. GTEC has informally told the Commission Advisory and Compliance Division (CACD) that it has no current plans to exercise this authority. Were GTEC to do so, in conjunction with this equity issuance, the pro forma common equity ratio would decline to 53.7%.

Use of Proceeds and Construction Budgets

GTEC states the utility wishes to issue and sell additional securities for the following purposes:

1. Acquisition of property;
2. Construction, completion, extension, or improvement of the utility's facilities;
3. Improvement or maintenance of its service;

4. Discharge in whole or in part of the obligations incurred for the above purposes, including the refunding of callable Debt Securities;
5. Reimburse the utility for monies actually expended for capital purposes but not obtained from external sources.

GTEC estimates the cost of its construction program for calendar years 1988 and 1989 will be about \$1,145,973,000 summarized as follows:

| <u>Purpose</u> | <u>1988</u> | <u>1989</u> |
|------------------------------------|-------------------|-------------------|
| Buildings | \$ 27,464,000 | \$ 13,334,000 |
| Central Office Equipment | 252,024,000 | 229,249,000 |
| Station Equipment | 9,650,000 | 9,935,000 |
| Outside Plant | 265,945,000 | 242,249,000 |
| Other (Land and General Equipment) | <u>46,754,000</u> | <u>49,369,000</u> |
| Total | \$601,837,000 | \$544,136,000 |

CACD has reviewed GTEC's construction budgets and concludes that the sale of GTEC Common Stock is necessary to partially reimburse the company's treasury for capital additions and improvements to GTEC's utility plant or to fund the planned construction. However, GTEC is placed on notice, by this decision, that the Commission does not find that GTEC's construction program is necessary, or reasonable, for ratefixing purposes. These are issues normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

GTEC cash requirements for 1988 and 1989 estimated as of June 1988 are as follows:

| | 1988 | 1989 |
|--|----------------------|----------------------|
| Funds Used or Required for Construction Expenditures - Net ¹ | \$586,434,000 | \$524,181,000 |
| Maturities of Long-Term Debt | 23,000,000 | 37,000,000 |
| Sinking Fund Preferred | 4,000,000 | 4,000,000 |
| Short-Term Debt Balance at Beginning of Year | <u>99,734,000</u> | <u>79,755,000</u> |
| Subtotals | \$713,168,000 | \$644,936,000 |
| Less: Estimated Cash Available from Internal Sources | <u>588,413,000</u> | <u>562,582,000</u> |
| Additional New Funds Required from Outside Sources | <u>\$124,755,000</u> | <u>\$ 82,354,000</u> |

CACD has analyzed GTEC's cash requirements forecasts, listed above, as indicated by the utility in its Supplemental Data Sheets dated October 6, 1988 and concludes that internally generated funds will provide about 82.5% or \$588,413,000 of the capital requirements for 1988 and about 87.2% or \$562,582,000 for 1989. CACD concludes that GTEC's proposed sale of its securities as requested in the application is necessary to help meet forecasted cash requirements. GTEC will need additional cash from outside sources consisting of \$124,755,000 in 1988 and \$82,354,000 in 1989.

Findings of Fact

1. GTEC, a California corporation, operates under the jurisdiction of this Commission.
2. The proposed Common Stock will be used for proper purposes.

¹ Excludes interest, net salvage and expenses charged to construction.

3. GTEC has need for external funds for the purposes set forth in the application.

4. The money, property, or labor to be procured, or paid for, by the proposed Common Stock is reasonably required for the purposes set forth in the application.

5. The Commission does not, by this decision, determine that GTEC's construction budgets are necessary or reasonable for ratefixing purposes. These issues are normally tested in general rate or rate base offset proceedings.

6. 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:

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it is required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

In issuing our order, we place GTEC and its shareholder on notice that the number of shares outstanding, the total par value of the shares, and the dividends paid do not determine allowable return on plant investment. This authorization is not a finding of the value of GTEC's stock or property, nor does it indicate the amounts to be included in rate setting proceedings.

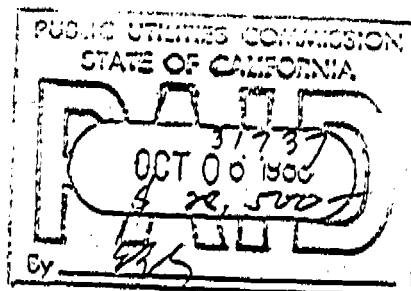
The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904.1 to enable GTEC to issue its proposed securities expeditiously.

O R D E R

IT IS ORDERED that:

1. GTE California Incorporated (GTEC), on or after the effective date of this order and on or before December 31, 1989, may issue, sell, and deliver up to \$45,000,000 aggregate principal amount of GTEC's Common Stock (2,250,000 shares, \$20 par value) to GTE Corporation, GTEC's parent.
2. GTEC shall use the net proceeds from the sale of its Common Stock for the purposes set forth in the application.
3. GTEC shall file the reports required by General Order Series 24.
4. The authority granted by this order to issue Common Stock will become effective when GTEC pays \$28,500, the fee set by PU Code Section 1904.1.
5. This application is granted as set forth above. This order is effective today.

Dated DEC 19 1988, at San Francisco, California.



STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY

[Signature]
Victor Weissner, Executive Director