

CACD/RHG

Decision 92-12-067 December 16, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GTE California )  
Incorporated, U-1002-C, a corporation ) Application 92-09-020  
to issue and sell up to \$450,000,000 ) (Filed September 14, 1992)  
in long-term debt. )

ORIGINAL

O P I N I O N

Summary of Decision

This decision grants the authority requested by GTE California Incorporated (GTEC) in Application (A.) 92-09-020.

GTEC requests authority, pursuant to §§ 818 and 851 of the Public Utilities (PU) Code, to issue and sell by competitive bid and/or private placement, in one or more issues on or before August 31, 1997, long-term debt (Debt Securities) not exceeding \$450,000,000 aggregate principal amount.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of September 17, 1992. No protests have been received.

Background

GTEC, a California corporation, operates as a public utility telephone company under the jurisdiction of this Commission. GTEC owns and operates intraLATA (local access and transport area) telecommunications systems (services, revenues, functions, etc., that relate to telecommunications originating and terminating within a single local access and transport area) in portions of 20 counties, all in California. Said systems consist mainly of telephone access lines and facilities for their interconnection, including underground and aerial cable and lines, central office equipment, land and buildings, and miscellaneous equipment.

For the twelve months ended December 31, 1991, GTEC reported it generated total operating revenues of \$2,931,907,000 and net income of \$463,772,000, as shown in Exhibit B, B-1 to the Application.

Also shown as part of Exhibit B, B-2 is GTEC's Balance Sheet as of December 31, 1991 which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$5,014,541,000
Current Assets	<u>864,983,000</u>
Total	\$5,879,524,000
<u>Liabilities and Equity</u>	<u>Amount</u>
Preferred Stock	\$ 81,865,000
Common Shareholder Equity	1,388,764,000
Additional Paid-in Capital	(870,000)
Other Capital	2,910,000
Retained Earnings	1,158,045,000
Current Liabilities	709,412,000
Deferred Taxes	791,309,000
Other Deferred Liabilities	105,814,000
Short-Term Notes	282,050,000
Current Maturities of Long-Term Debt	24,191,000
Long-Term Debt	<u>1,336,034,000</u>
Total	\$5,879,524,000

### Debt Securities

GTEC proposes to issue and sell, in one or more series on or before August 31, 1997, up to \$450,000,000 aggregate principal amount of Debt Securities. GTEC intends to issue, sell and deliver said Debt Securities by competitive bid and/or private placement depending on which process is most favorable at the time of issuance. The principal amount and the terms and conditions of each issue of Debt Securities will be determined by GTEC's management and/or Board of Directors according to market conditions at the time of sale.

#### A. Secured Debt Securities (Bonds)

If any part of GTEC's Debt Securities are issued and sold in the form of new Bonds, these Bonds will be issued in accordance with, secured by, and will have terms and conditions set forth in

the Indenture dated December 1, 1939, executed and delivered by GTEC to Bank of America, as Trustee, as amended by supplemental indentures, and a proposed supplemental indenture for each series of the new Bonds. The form of each proposed supplemental indenture will be of a type similar to prior forms filed with the Commission. Security for Bonds would be in the form of a lien on property.

**B. Unsecured Debt Securities (Debentures)**

If any part of GTEC's Debt Securities are issued and sold in the form of Debentures, these Debentures may be sold to underwriters or through agents who in turn will offer the Debentures to investors, or may be sold directly to investors, either with or without the assistance of a private placement agent.

**Terms and Conditions**

The terms and conditions of GTEC's proposed Debt Securities offerings, including the price, interest rate, security, maturity date, redemption provisions and sinking fund (if any) will be determined by market conditions at the time of sale of each series of Debt Securities. Each issue of Debt Securities may contain a provision allowing it to be redeemed or repaid prior to maturity. An early redemption provision may allow the Debt Securities to be redeemed or repaid at any time, or it may allow the Debt Securities to be redeemed or repaid only after a certain restrictive period. In either case, the Debt Securities would be redeemable at par or at a premium over par.

Debt Securities may bear a fixed or floating rate of interest and may be issued at par or with an original issue discount or premium. Each series of Debt Securities is expected to have a maturity of between one (1) year and forty (40) years. Each issue of Debt Securities may be issued under an indenture or a supplement to an existing indenture to be delivered to the Trustee for such issue.

Features to Enhance Debt Securities

The following features will be used as appropriate to improve the terms and conditions of GTEC's Debt Securities and to lower its overall cost of money for the benefit of ratepayers:

A. Put Option

This allows the holders of Debt Securities to require GTEC to repurchase all or a portion of each holder's securities. This is the reverse of a call provision whereby GTEC would have the right to require debtholders to sell the Debt Securities back to GTEC. Debtholders may be willing to accept a lower interest rate in exchange for the protection that a put option offers.

B. Sinking Fund

From time to time the cost of Debt Securities may be reduced by the use of a sinking fund. GTEC wishes to preserve the ability to use this option should a market preference develop.

C. Tax-Exempt Feature

From time to time the cost of debt financings may be reduced by entering into financing arrangements with one or more political subdivisions which are able to issue tax-exempt debt. GTEC anticipates using the tax-exempt option whenever its facilities qualify for tax-exempt financing under federal law.

D. Warrants

The cost of Debt Securities may be reduced by attaching warrants whereby the holder is entitled to purchase an additional

bond or debenture with pre-established terms and conditions, or to purchase a share of common stock. The Debt Security to be issued upon exercise of a debt warrant would bear interest at a pre-established rate and would mature at a pre-established time.

We will require GTEC to provide us with a showing of why GTEC believes that the resulting interest rate and cost of money were advantageous to GTEC and its ratepayers. We will require this showing within thirty days (30) after issuance of Debt Securities.

Competitive Bidding Rule

The terms and conditions of Debt Securities issued in each financing sold by means other than competitive bidding will be determined by negotiations between GTEC and the underwriters selected for the proposed offering or the lenders or investors to whom the Debt Securities are to be issued. The amount, terms and conditions of debt financing obtained through commercial bank borrowings will be established by negotiations between GTEC and the lenders. However, domestic underwritten public offerings of fixed interest rate Debentures and First Mortgage Bonds with an aggregate amount over \$20,000,000 are subject to the Competitive Bidding Rule.

Construction Budget

A summary of GTEC's construction program for 1992 and 1993, included as Exhibit B and supplemental data to the Application, is set forth below:

<u>Item</u>	<u>1992</u>	<u>1993</u>
General Support	\$ 42,258,000	\$ 48,014,000
Central Office Equipment	202,223,000	196,109,000
Station Equipment	8,077,000	11,845,000
Outside Plant	226,522,000	199,542,000
Land & General Equipment	<u>17,666,000</u>	<u>16,842,000</u>
 Total	 \$496,746,000	 \$472,352,000
Less: Retirements	<u>171,434,000</u>	<u>105,372,000</u>
 Net Additions	 \$325,312,000	 \$366,980,000

The Commission Advisory and Compliance Division (CACD) advises us that the construction budgets proposed for 1992 and 1993 raise no questions that should dissuade us from giving favorable consideration to the financing requested in this Application. We will not, however, make a finding in this decision on the reasonableness of the proposed construction program.

Capitalization Ratios

GTEC's capitalization ratios at December 31, 1991, recorded and pro forma (after giving effect to the proposed issuance of Debt Securities in the aggregate principal amount of \$450,000,000), are set forth below:

	(Thousands of Dollars)			
	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Debt:				
First Mortgage Bonds	\$1,330,000	31.12	\$1,630,000	38.17
Sinking Fund				
Debentures	47,710	1.12	24,324	0.57
Other Long-Term Debt	(17,485)	-0.41	(15,256)	-0.36
Short-Term Debt	282,050	6.60	0	0.00
Preferred Stock	\$ 81,865	1.92	81,865	1.92
Common Equity	<u>2,548,849</u>	<u>59.65</u>	<u>2,548,849</u>	<u>59.70</u>
Total	\$4,272,989	100.00	\$4,269,782	100.00

GTEC is placed on notice, by this decision, that under our New Regulatory Framework for local exchange companies, GTEC's capital structure is not a factor in setting rates, and we make no finding in this decision of the reasonableness of GTEC's projected capital ratios.

Cash Requirements Forecast

GTEC's cash requirements forecasts for 1992 and 1993 are summarized as follows:

<u>Requirements</u>	<u>1992</u>	<u>1993</u>
Gross Additions to Plant	\$496,746,000	\$472,352,000
Cost of Removal	18,546,000	17,371,000
Salvage	(8,370,000)	(7,527,000)
Interest During Construction	(10,404,000)	(10,400,000)
Materials and Supplies	2,162,000	(9,767,000)
Other Capital Expenditures	<u>28,654,000</u>	<u>23,566,000</u>
Net Capital Expenditures	\$527,334,000	\$485,595,000
Working Capital - Net	(12,426,000)	(23,272,000)
Other Funds Required	31,796,000	(20,631,000)
Sub-total	\$546,704,000	\$441,692,000
 <u>Sources</u>		
Internal Sources:		
Net Income	\$450,010,000	\$410,007,000
Dividends	(450,010,000)	(410,007,000)
Depreciation	578,851,000	595,101,000
Deferred Income Taxes and Investment Tax Credits	(660,000)	(70,953,000)
Other Internal Sources	<u>(54,461,000)</u>	<u>7,354,000</u>
Total Internal Sources	\$523,730,000	\$531,502,000
 External Sources:		
Long-term Debt Issued	\$450,000,000	0
Long-term Debt Retired and Other Changes	(22,965,000)	(\$26,740,000)
High Coupon Refundings	(150,000,000)	0
Short-Term Debt Changes	<u>(254,061,000)</u>	<u>(63,070,000)</u>
Total External Sources	\$ 22,974,000	(\$89,810,000)
 Total Sources	 \$546,704,000	 \$441,692,000

GTEC's cash requirements forecasts for 1992 and 1993, provided in GTEC's Exhibit B, B-4 and supplemental data to the Application, show that internally generated funds will provide \$523,730,000 or 95.8% of GTEC's cash requirements for 1992. GTEC projects it will need funds from external sources amounting to \$22,974,000 after considering \$450,000,000 of new Debt Securities, \$22,965,000 retirement of long-term debts, \$254,061,000 retirement of short-term debts, and \$150,000,000 high coupon refundings.

Cash from internal sources will be more than sufficient to cover cash requirements in 1993.

CACD has reviewed the Application and has concluded that the proposed issuance of GTEC's Debt Securities is reasonable and that the authority should be granted. The Commission has considered CACD's recommendations and will adopt them.

#### Use of Proceeds

GTEC proposes to use the proceeds from the issue and sale of its Debt Securities principally for (1) the refunding of certain short-term obligations, (2) high coupon bonds refunding, (3) long-term debt retirement. In addition, GTEC preserves the option of using the proceeds partly for the acquisition of property, the construction, completion, extension or improvement of facilities, and the reimbursements of monies actually expended from income or from other monies in its treasury, not secured by or obtained from the issuance of stock or stock certificates, or other evidence of indebtedness, for any one or more of the purposes specified herein except maintenance of service and replacements.

CACD has reviewed GTEC's Application and its proposed sale of Debt Securities and has concluded that GTEC's proposed financing is necessary to provide funds for the purposes set forth in the Application.

#### Findings of Fact

1. GTEC, a California corporation, is a telephone utility subject to the jurisdiction of this Commission.
2. GTEC has need for external funds for the purposes set forth in the Application.
3. The proposed issuance and sale of Debt Securities is for proper purposes.
4. Authorizing GTEC to determine the precise amount and timing of each financing, the market in and method by which each financing is effected, and the price, interest rate, and other material provisions of the Debt Securities issued in each financing, within the constraints set forth in this decision, is not adverse to the public interest.

5. Debt Securities features are tools which may improve the terms and conditions of debt issues and may lower the overall cost of money.

6. Authorizing GTEC to mortgage or otherwise encumber its properties as security for its Debt Securities is not adverse to the public interest.

7. Fixed-rate bonds and debentures (other than tax-exempt securities) shall be sold publicly in the domestic market in compliance with the Commission's Competitive Bidding Rule.

8. The Commission does not by this decision determine that the construction budget and capital structure presented herein are necessary or reasonable for ratemaking purposes.

9. The money, property, or labor to be procured or paid for by the proposed Debt Securities is reasonably required for the purposes specified in the Application.

10. There is no known opposition to this Application, and there is 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.

3. The proposed issuance of Debt Securities is for lawful purposes and the money, property, or labor to be obtained therefrom is required for these purposes. The proceeds from the issuance of Debt Securities may not be charged to operating expenses or income.

4. The effectiveness of this authorization should be contingent on GTEC's paying the fee required by PU Code § 1904(b).

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, GTE California Incorporated (GTEC) may issue and sell, in one or more series on or before August 31, 1997, up to \$450,000,000 in Bonds and Debentures (Debt Securities).
2. Debt Securities may include one or a combination of features to enhance Debt Securities as set forth in this decision.
3. GTEC may execute and deliver an indenture or one or more supplemental indentures in connection with any issue of Debt Securities.
4. GTEC may issue, sell, and deliver Debt Securities by public offering or private placement.
5. Fixed-rate Bonds and Debentures (other than tax-exempt securities) sold publicly in the domestic market shall be offered through competitive bidding.
6. GTEC shall apply the proceeds of the indebtedness authorized for the purposes specified in the Application.
7. Within thirty (30) days after awarding the contract for the sale of Debt Securities by competitive bidding, GTEC shall submit a written report to the Commission Advisory and Compliance Division (CACD) showing for each bid received, the name of the bidder, the price, the interest rate, and the cost of money to GTEC based on the price and interest rate.
8. If the Debt Securities are sold by means of a public offering, GTEC shall submit to CACD three copies of its final prospectus pertaining to the Debt Securities.
9. The final form of the Debt Securities and their related Purchase Agreements shall be submitted to the Commission within 30 days after any such issuance and sale.
10. On or before the 25th day of each month, GTEC shall file the reports required by General Order Series 24.
11. The Application is granted as set forth above.

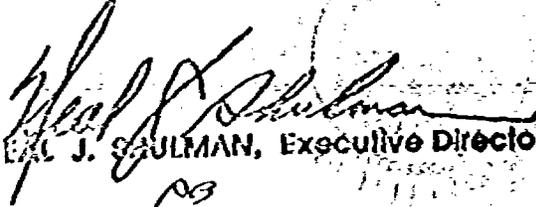
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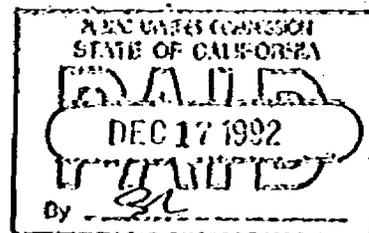
12. The authority granted by this order to issue the Debt Securities will become effective when GTEC pays \$231,000, the fee required by Public Utilities Code § 1904(b). In all other respects this order is effective today.

Dated December 16, 1992, at San Francisco, California.

DANIEL Wm. FESSLER  
President  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
Commissioners

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

  
NEAL J. SAULMAN, Executive Director



Rec. # 35947  
\$231,000