

CACD/BVC

Decision 92-12-069 December 16, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC BELL (U 1001 C) )  
to issue and sell debt securities in )  
an amount not to exceed \$2.1 billion; )  
to execute and deliver one or more in- )  
dentures; to enter into certain finan- )  
cial contracts; an exemption from the )  
Competitive Bidding Rule; to renew )  
and/or refund Commercial Paper so that )  
combined terms exceed twelve months )  
and in lieu of G.O 24-B requirements, )  
the filing of certain reports. )

ORIGINAL

Application 92-10-002  
(Filed October 1, 1992)

O P I N I O N

Summary of Decision

This decision grants Pacific Bell (Pacific) the authority requested in Application (A.) 92-10-002 (Application). Pacific requests authority pursuant to Public Utilities Code Sections 816 through 830 for the following:

1. To issue and sell one or more series of debentures and/or notes (Debt Securities) through public offerings or private placements in an amount not to exceed \$2.1 billion.
2. To execute and deliver an indenture or supplemental indenture in connection with the proposed issuance of any Debt Securities.
3. To enter into certain financial contracts, including interest rate caps, collars and swaps.
4. An exemption from the Commission's Competitive Bidding Rule.

5. The ability to renew and/or refund Pacific's Commercial Paper so that the combined terms of its obligations may exceed twelve months without further authorization from the Commission.
6. To file certain reports with the Commission in lieu of General Order 24-B requirements.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of October 7, 1992. No protests have been received.

Background

Pacific owns and operates a general communications system in the State of California. The system is composed of local and long-distance telephone lines and exchanges, buildings, rights-of-way, franchises and equipment.

For the six months ended June 30, 1992, Pacific reported it generated total operating revenues of \$4,413,700,000 and net income of \$612,800,000 shown as part of Exhibit A to the Application.

Also shown as part of Exhibit A is Pacific's Balance Sheet as of June 30, 1992 which is summarized below:

<u>Assets</u>	<u>Amount</u> (Millions)
Net Plant, Property and Equipment	\$15,648.4
Current Assets	2,042.5
Investments and Deferred Charges	<u>944.1</u>
Total	\$18,635.0
<u>Liabilities and Equity</u>	
Common Shareowners Equity	\$ 7,318.7
Long and Interm. Term Debt	4,550.4
Current Liabilities	2,228.6
Deferred Credits	<u>4,537.3</u>
Total	\$18,635.0

Debt Securities

Pacific proposes to issue and sell, in one or more series, debentures and/or notes (Debt Securities) not to exceed an aggregate principal amount of \$2.1 billion.

Debt Securities may be issued in the manner and forms proposed and fully described in the Application. These would include:

1. Debt Securities containing a Put Option
2. Debt Securities with attached Warrants
3. Medium Term Notes
4. Debt Securities containing provisions allowing Interest Rate Caps, Collars and Swaps.

Competitive Bidding Rule

Pacific anticipates that from time to time the effective cost of Debt Securities may be reduced by the inclusion of a "put" option or by attaching warrants. Since the universe

of investors interested in put bonds or Debt Securities with warrants is somewhat limited, according to Pacific, issuing securities with these enhancements through competitive bidding may not be viable. Therefore, Pacific requests an exemption from the Commission's Competitive Bidding Rule for Debt Securities containing "put" options, as well as Medium Term Notes, as was previously granted in Decision (D.) 92-06-066. Additionally Pacific seeks an exemption from the Competitive Bidding Rule for Debt Securities with warrants.

Pacific also seeks the flexibility to pursue transactions involving interest rate caps, collars or swaps on a negotiated basis and therefore requests an exemption from the Commission's Competitive Bidding Rule for Debt Securities issued in combination with interest rate caps, collars or swaps as was previously granted to Pacific in D.92-06-066.

Finally, Pacific also seeks an exemption from the Commission's Competitive Bidding Rule for issues of Debt Securities in an amount of \$200 million or greater as was also recently granted in D.92-06-066. According to Pacific, volatile interest rates, due in part to such factors as volatility in foreign exchange rates, investor uncertainty regarding inflation, fears of an ongoing recession and the large demand for long-term funds by both government and private industry are all conditions which are expected to persist for the foreseeable future and make the timing and setting of terms of any debt issue extremely important. A negotiated offering may provide greater flexibility to adjust the timing and terms of a proposed debt offering to meet changing market conditions than that which would be available through the competitive bid process.

The Commission Advisory and Compliance Division (CACD) has reviewed Pacific's request and reasons for an exemption from the Competitive Bidding Rule as modified by Resolution F-616. CACD has determined that exemptions from the Competitive Bidding Rule are warranted and recommends that they be granted. We will accept CACD's recommendations.

Capitalization Ratios

Pacific's capitalization ratios at June 30, 1992, recorded and pro forma, after giving effect to the proposed issuance of its Debt Securities in the aggregate principal amount of \$2.1 billion, are as set forth below:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$ 4,929 <sup>1</sup>	39.9%	\$ 4,954	40.0%
Common Equity	7,319	59.2	7,319	59.1
Short-Term Debt	<u>105</u>	<u>0.9</u>	<u>105</u>	<u>0.9</u>
Total	\$12,353	100.0%	\$12,378	100.0%

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

Use of Proceeds

The \$2.1 billion principal amount of Debt Securities which Pacific requests are necessary to make required redemptions and retirements, and additional repurchases and retirements of high coupon securities as detailed in Exhibits D and E of the Application. Although the total principal amount of securities cited in those exhibits exceeds the authorization requested, Pacific believes that the requested authorization should be adequate to cover likely refinancing opportunities in the near term. Notwithstanding the specific debt cited in Exhibits D and E, Pacific requests authority to issue any or all of the proceeds related to issues sold pursuant to the Application for the early

<sup>1</sup> (a) Includes current portion of Long-Term Debt and \$32.6 million of capital lease obligations.

retirement of any of its debt securities in the event that appropriate refunding rates are available. Pacific does not anticipate using proceeds realized from the proposed Debt Securities for purposes other than refinancing.

Commercial Paper

Pacific seeks the authority to refund or renew its Commercial Paper such that the combined terms of its Commercial Paper may exceed 12 months without the need to periodically request new authorization from this Commission. The Commission dealt with this issue in Pacific's previous decision, D.92-06-066 (A.86-12-056), in which we ordered that "Pacific may renew or refund its commercial paper such that the combined terms of its outstanding commercial paper may exceed 12 months without further authorization from this Commission." Thus, Pacific has already been granted the authority it requests and we do not need to revisit this issue at this time.

Findings of Fact

1. Pacific, a California Corporation, operates as a public utility under the jurisdiction of this Commission.
2. Pacific has need for external funds for the purposes set forth in the Application.
3. The authorization sought by Pacific in its Application is not adverse to the public interest.
4. The authorization sought by Pacific in its Application is for proper purposes.
5. The authorization sought by Pacific with respect to its refunding or renewal of its Commercial Paper, such that the combined term of its outstanding Commercial Paper may exceed 12 months without further authorization from this Commission, was addressed in D.92-06-066 and need not be readdressed in this decision.

6. 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.

7. There is no known opposition to this request 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 Debt Securities is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the Debt Securities may not be charged to operating expenses or income.

4. The following order should be effective on the date of signature to enable Pacific to proceed with its financing expeditiously. There is no fee.

O R D E R

IT IS ORDERED that:

1. Pacific Bell (Pacific), on or before December 31, 1995 is authorized to do the following:

a. To issue and sell one or more series of debentures and/or notes ("Debt securities") through public offerings or private placements in an amount not to exceed \$2.1 billion.

b. To execute and deliver an indenture or supplemental indenture in connection with the proposed issuance of any Debt Securities.

- c. To enter into certain financial contracts, including interest rate caps, collars and swaps.
- d. To file certain reports with this Commission in lieu of General Order 24-B requirements.

2. Pacific's proposed issuance and sale of Medium Term Notes; and/or Debt Securities (a) containing "put" options or warrants, or (b) issued in combination with interest rate caps, collars or swaps, or (c) in amounts of \$200 million or greater are exempted from the requirements of the Commission's Competitive Bidding Rule.

3. Pacific shall file, with the Commission Advisory and Compliance Division (CACD), copies of all reports, as outlined in the Application and as previously ordered in Decision 92-06-066.

4. Pacific shall file, with CACD, copies of all reports pertaining to interest rate swaps, caps, and collars within 15 days of the execution of each transaction.

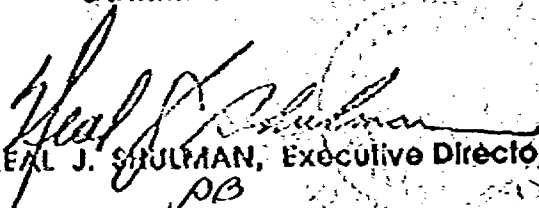


5. The Application is granted as set forth above.
6. The authority granted by this order to issue the Debt Securities is effective today.

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. SULMAN, Executive Director  
PB