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Decision 82 04 023 APR - 6 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, to issue on a negotiated basis a promissory note or notes in an aggregate principal amount not to exceed $250,000,000; and for an exemption of such proposed issuance from the requirements of the Competitive Bidding Rule.	Application 82-03-05 (Filed March 1, 1982)

OPINION

The Pacific Telephone and Telegraph Company (Pacific) requests authority under Public Utilities (PU) Code, Sections 816 through 818, to enter into an agreement or agreements to issue and sell on a negotiated basis by private placement an unsecured promissory note or notes (Term Notes) in an aggregate principal amount of up to $250,000,000, exempt from the Commission's competitive bidding rule and with a term or terms of not to exceed six years.

Notice of the filing of the application appeared on the Commission's Daily Calendar of March 3, 1982. No protests have been received.

Pacific, a California corporation, is sole owner of Bell Telephone Company of Nevada and a subsidiary of the American Telephone and Telegraph Company which owns 91.5% of Pacific's common shares. Pacific is a public utility telephone company engaged in the business of providing local and long-distance telephone service in the State of California. Pacific's system is comprised of local and long-distance telephone lines and exchanges, buildings, rights-of-way, franchises, and equipment. For calendar year 1981, Pacific reports total consolidated operating revenues of $6,818,900,000 and net income of $438,800,000.

Pacific proposes to enter into an agreement or agreements to issue and sell on a negotiated basis by private placement Term Notes in the aggregate principal amount of up to $250,000,000 having a term or terms not to exceed six years. The number of Term Notes, the exact aggregate amount, the form(s) and character, and the terms and conditions, such as maturity, the interest rate or rates, and any special features pertaining to redemption shall be determined by Pacific's chairman of the board of directors, president, executive vice president and chief financial officer, or treasurer. It is expected, however, that the Term Notes will be cancellable by Pacific in whole or in part at any time to provide needed flexibility.

Pacific anticipates that the Term Notes will be completely placed before July 1, 1982. Pacific expects to apply the proceeds (other than accrued interest which would be used for general corporate purposes) for the mandatory redemption of $12,500,000 of 7.88% Preferred Shares due July 1, 1982 and toward reimbursement of its treasury. When the treasury has been reimbursed, Pacific intends to apply an equivalent amount to repayment of its then outstanding short-term borrowings, which are expected to be about $1.2 billion by the end of April 1982 in the absence of the proposed financing.

Pacific further states that due to the nature of the transactions involved in privately placing note issues, it would not be appropriate for this Commission to apply its competitive bidding rule. Pacific also points out that the proposed financing does not require any Securities and Exchange Commission (SEC) registration, prospectus, or listing on the exchanges. A public debt offering involves accountants' fees, SEC filing fees, and substantially higher printing costs. A public offering would entail underwriting costs which are normally greater than private placement agent fees. Pacific, therefore, states its belief that the private placement of debt, as proposed, will be accomplished at a cost as low, if not lower, than would prevail if securities were sold at competitive bidding through a public offering.

The Revenue Requirements Division has reviewed the foregoing reasons and concurs with Pacific that offering its debt securities by means of a public sale at competitive bidding would be more costly than a sale by private placement. The Division believes and concludes that a private placement of the proposed Term Notes is less costly because of reduced filing fees, printing costs, accountant's fees, attorney's fees, and underwriting fees.

In Decision (D.) 91984, dated July 2, 1980 for San Diego Gas & Electric Company's 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 group will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

Because Pacific intends to sell the proposed Term Notes 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 Term Notes will be sold at a cost as low, if not lower, than if the Term Notes were to be sold at competitive bidding, we are of the opinion that applying the Commission's competitive bidding requirements and conditions set forth in

D.91984 in this proceeding would not be in the best interests of Pacific or its ratepayers. The rule would not operate to ensure that Pacific's sale of the Term Notes would be at the most favorable cost of money. However, in order not to preclude the competitive bid option, we will also grant Pacific the authority to issue the proposed Term Notes by means of a competitive offering.

In D.93380, dated August 4, 1981 for Pacific's A.60696, we emphasized our "firm expectations" that there will be a "massive" infusion of equity into Pacific, and emphasized a dissatisfaction with Pacific's high debt ratio. We pointed out, however, that these concerns did not mean that we would disapprove all new debt offerings by Pacific, but rather that we would review such applications thoroughly. Since D.93380, Pacific has sold approximately 23 million shares of equity in connection with a rights offering and more than one million shares in connection with the Bell System Employees Stock Ownership Plan, both in September of 1981. Furthermore, Pacific has filed in compliance with D.93367 its financing plans through September 30, 1983. These plans provide for a very high proportion of equity financing, and the presently proposed debt financing is not inconsistent therewith. Finally, the pending merger application proceeding (A.61045, filed 11/6/81), as Pacific points out in its application, makes equity financing for Pacific at this time difficult, if not impossible. Therefore, although we are approving this debt application, we again emphasize the importance of Pacific substantially reducing its present high debt ratio.

The purpose of the proposed financing is for the mandatory redemption of $12,500,000 of 7.88% Preferred Shares due July 1, 1982 and to reimburse Pacific's treasury for moneys actually expended for capital purposes from income and from other treasury funds of Pacific and its subsidiary. These expenditures amounted to a cumulative total of $3,791,157,791 as of December 31, 1981.

Pacific's estimates for the year 1982 indicate the need for $2,767,300,000 gross construction outlays related to customer growth and movement and for plant modernization and replacement as follows:

Purpose	Amount
Customer Growth	$1,820,300,000
Customer Movement	282,400,000
Plant Modernization	470,200,000
Plant Replacement	194,400,000
Total	$2,767,300,000

The Commission's Revenue Requirements Division has reviewed Pacific's application and its 1982 construction program. Pacific, as previously indicated in this opinion, intends to use the proceeds from the sale of the Term Notes for the mandatory redemption of $12,500,000 of 7.88% Preferred Shares due July 1, 1982, to reimburse the treasury, and to repay short-term borrowings which are expected to be about $1.2 billion by the end of April 1982 in the absence of the proposed financing (Exhibit B of the application). The Division reserves the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

Pacific 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 the interest expense if it is determined that the cost of money incurred was not the most prudent.

Pacific's capital ratios as recorded on December 31, 1981, and as adjusted to April 30, 1982, to give pro forma effect to the mandatory redemption on July 1, 1982 of $12,500,000 principal amount of 7.88% Preferred Shares, and the proposed placement of up to $250,000,000 aggregate principal amount of Term Notes beginning in April 1982 are as follows:

	Recorded	Pro Forma
Long-Term Debt	51.2%	51.4%
Short-Term Debt	6.2	7.5
Total Debt	57.4%	58.9%
Preferred Stock	5.1	4.8
Common Equity	37.5	36.3
Total	100.0%	100.0%

Findings of Fact

1. Pacific, a California corporation, operates as a public telephone utility under the jurisdiction of this Commission.

2. The proposed issuance and private placement of Pacific's Term Notes are for proper purposes.

3. Pacific has need for external funds for the purposes set forth in this proceeding.

4. Pacific believes it will be able to issue and sell its Term Notes through a negotiated private placement at a cost to the company as low, or lower, than it could obtain from an offering by competitive bidding.

5. Pacific should be authorized to issue and sell up to $250,000,000 of Term Notes, either through private placement or by competitive bidding, upon terms and at a time which Pacific determines to be most advantageous to it and its ratepayers.

6. The debt securities are unsecured since no California property would become encumbered.

7. 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.

8. There is no known opposition to the application 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 are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable Pacific to issue its Term Notes expeditiously.

O R D E R

IT IS ORDERED that:

1. The Pacific Telephone and Telegraph Company (Pacific) may enter into an agreement or agreements and issue on a negotiated basis by private placment on or before December 31, 1982 an unsecured Promissory Note or Notes in the aggregate principal amount of up to $250,000,000 with a term or terms each not to exceed six years, and with such terms and conditions, interest rate or rates, and any redemption provisions or other special features as may be determined necessary or advisable in accordance with the application.

2. The proposed issuance on a negotiated basis and private placement of the debt is exempted from the Commission's competitive bidding rule set forth in D.38614, dated January 15, 1946, as amended, in Case 4761; alternatively, Pacific may issue, sell, and deliver these debt securities by means of a competitive offering.

3. Pacific shall use the proceeds of the issuance and private placement of the debt securities for the purposes set forth in the application.

4. As soon as available, Pacific shall file a conformed copy of each Promissory Note and Agreement or instrument executed and delivered by it in connection with the debt securities.

5. Within 30 days after the proceeds from the private placement of the debt securities are available, Pacific shall file with the Commission a letter reporting the amount of the debt issued, whether privately or competitively placed, and the use of the proceeds substantially in the format set forth in appendix C of D.85287, dated December 30, 1975, in A.55214 and C.9832.

6. If the debt securities are sold by competitive bidding, as soon as available, Pacific shall file with the Commission three copies of its final prospectus pertaining to its debt securities.

7. This order shall become effective when Pacific has paid the $124,750 fee set by PU Code Section 1904(b) after taking credit for the mandatory redemption of $12,500,000 principal amount of its 7.88% Preferred Shares due July 1, 1982.

Dated APR 6 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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

Joseph E. Bodovitz
Joseph E. Bodovitz, Executive Director

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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By