

ORIGINAL

Decision 83 12 001

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY for authorization to assume the obligations of an existing Promissory Note secured by a Deed of Trust in connection with the purchase of an office building.

Application 83-10-51 (Filed October 31, 1983; amended November 15, 1983 and December 2, 1983)

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific) requests authority, under Public Utilities Code (PU) Sections 816 through 830 and 851, to enter into a purchase transaction for an office building either subject to or by assuming the obligations under an existing promissory note secured by a deed of trust (Note).

Summary of Decision

This decision grants Pacific the authority requested in the application, as amended.

Notices of the filing of the application, as amended, appeared on the Commission's Daily Calendars of November 2, November 18 and December 5, 1983. No protests have been received.

Pacific, a California corporation, is the sole owner of the Bell Telephone Company of Nevada and is itself a wholly-owned subsidiary of the American Telephone and Telegraph Company.

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 the six months ended June 30, 1983, Pacific reports in its Consolidated Income Statement that Pacific generated total operating revenues of \$3,944,900,000 and a net income before extraordinary item of \$329,800,000 as shown in Exhibit A attached to the application, as amended.

By this application, as amended, Pacific proposes to enter into a purchase transaction with respect to an office building, either subject to or by assuming the obligations under an existing Note. ✓

The building to be purchased, located at 370 Third Street in San Francisco, was built to Pacific's specifications during 1976 and has seven floors and approximately 435,000 square feet of floor space.

The building is totally occupied by Pacific under a net lease with its present owner, Building Enterprises, Limited (BEL). Under the terms of the net lease, Pacific has an option to buy the building on a right of first refusal basis, should BEL decide to sell the building and receive a bona fide offer. BEL has received an offer, and Pacific has exercised its right by making a matching

offer of \$23,457,032 (approximately \$9,850,000 cash and either subject to or by assuming the obligations under an existing Note with a balance of \$13,607,032 or a total purchase price of approximately \$23,457,032). The cash portion of the purchase price may be adjusted as a result of continuing negotiations between Pacific and BEL. Under the terms of the proposed purchase and sale agreement, should Pacific not purchase the building either subject to or by assuming the Note, Pacific would be required to pay BEL an additional amount to cover BEL's prepayment penalties incurred in satisfying the obligations of the Note. Also, upon purchase of the building, Pacific would assume BEL's rights and obligations under the existing ground lease.

A copy of the Note attached to the application, as amended, indicates that the Note has an interest rate of 9-1/4% with a remaining term of approximately 25 years, which term can be shortened by five years during 1992. The Note is secured by a deed of trust which does not contain a "due on sale" clause. Thus, Pacific may purchase the building either subject to or by assuming the Note. In view of the favorable interest rate on the Note, Pacific has notified BEL that Pacific wishes to take advantage of the existing financing by purchasing the building either subject to or by assuming the Note.

Pacific has completed an "own versus lease" study on the property. The results of the study, which Pacific has provided to the Commission, shows a significant advantage in purchasing the

building. In addition, Pacific's study compares the cost of purchasing the building totally with cash, as opposed to the cost of purchasing partially with a cash payment and either subject to or by assuming the Note. The results of the study favor purchasing the building either subject to or by assuming the Note by a substantial margin. Based on a net present worth analysis, Pacific would realize net savings of approximately \$61,454,100 by purchasing the building either subject to or by assuming the Note rather than leasing, and net savings of approximately \$53,459,600 by purchasing the building totally with cash rather than leasing. Thus, Pacific would realize an advantage of approximately \$7,994,500 by purchasing the building either subject to or by assuming the Note.

The application, as amended, indicates Pacific and BEL intend to consummate the purchase of the building on or before December 13, 1983. Because of the limited time in which Pacific can take advantage of the favorable financing made possible by purchasing the building either subject to or by assuming the Note, prompt Commission action on this matter is critical.

The Commission's Revenue Requirements Division has reviewed Pacific's request to purchase the office building either subject to or by assuming the obligations under an existing Note, and the Division has concluded that it is in the public interest for Pacific to purchase the real property involved either subject

to or by assuming the Note in question. The Division recommends that Pacific's request be granted. At the same time, the Commission is not finding that the acquisition of the office building is necessary and reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

Findings of Fact

1. Pacific, a California corporation, operates under the jurisdiction of this Commission.

2. Pacific's proposal to enter into a purchase transaction with respect to an office building, located at 370 Third Street, San Francisco, and either subject to or by assuming the obligations under an existing Note would be for proper purposes.

3. Presently, Pacific is the sole lessee of this building, which was constructed to Pacific's specifications during 1976.

4. The proposed purchase transaction would enable Pacific to make use of the building at significantly less cost, than if Pacific continued to lease or purchase with cash the office building in question.

5. The proposed purchase transaction either subject to or by assuming the obligations under an existing Note is a reasonable means of Pacific's financing the purchase of the office building.

6. The proposed purchase transaction either subject to or by assuming the obligations under an existing Note would be for proper purposes. ✓

7. The proposed purchase transaction either subject to or by assuming the obligations under an existing Note is not adverse to the public interest. ✓

8. The money, property, or labor to be procured or paid for by the purchase transaction either subject to or by assuming the obligations under an existing Note is reasonably required for the purposes specified in the application, as amended. ✓

9. 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, as amended, should be granted to the extent set forth in the order which follows.

The proposed purchase transaction either subject to or by assuming the obligations under an existing Note is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the Note 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 consummate the purchase transaction as expeditiously as possible.

O R D E R

IT IS ORDERED that:

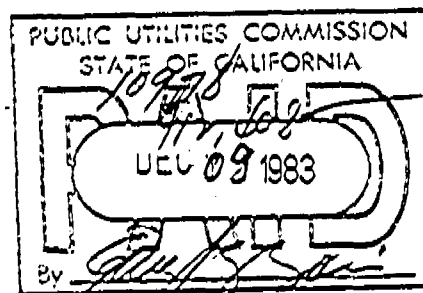
1. The Pacific Telephone and Telegraph Company (Pacific), on or after the effective date of this order, may enter into a purchase transaction for an office building either subject to or by assuming the obligations under an existing promissory note secured by a deed of trust (Note). ✓

2. Pacific shall file with the Commission a final copy of the purchase and sale documents pertaining to the purchase transaction and Note within 15 days after their execution.

3. The authority granted by this order will become effective when Pacific pays \$12,804, the fee set by PU Code Section 1904(b). In all other respects, this order is effective today.

Dated DEC 7 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
FRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners



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

Joseph E. Bodovitz
Joseph E. Bodovitz, Executive Director