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Decision No. 87514 June 28, 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, to issue and sell not to exceed $200,000,000 par value of non-voting preferred capital stock.	Application No. 57384 (Filed June 17, 1977)

OPINION

The Pacific Telephone and Telegraph Company (Pacific Telephone) requests authority to issue and sell not to exceed $200,000,000 aggregate par value of non-voting cumulative preferred stock, consisting of 8,000,000 shares having a par value of $25 per share.

This proposed class of preferred shares is referred to herein as "non-voting" shares to distinguish it from the existing class of preferred shares, which is referred to as "voting" preferred shares. The proposed class of non-voting preferred shares will, however, have limited voting rights in the event of certain defaults in dividends or certain other changes affecting their interests, as provided in Pacific Telephone's Articles of Incorporation, as amended. The holders of non-voting preferred shares would have no preferential right to subscribe for newly issued shares of any class of common or preferred stock, or rights thereto, nor for any securities convertible into such shares.

The non-voting preferred shares would be entitled to receive, when and as declared from the profits arising from the business of the corporation, dividends at the rate of 7.88% of the par value thereof per annum, and no more, payable in quarterly installments, as the Board of Directors shall from time to time direct. Such dividends would be cumulative with respect to each share from the date of issuance thereof.

The shares may be redeemed at the option of Pacific Telephone, in whole or in part, on any date upon at least thirty (30) days' notice at per share prices declining annually and proportionately from par plus a premium equal to the dividend to and including June 30, 1978, to $25 on July 1, 1995, and thereafter, plus, in each case, dividends accrued but unpaid to the date fixed for redemption.

Prior to July 1, 1987, the non-voting preferred shares will not be optionally redeemable through the issuance of debt at an interest cost (calculated in accordance with generally accepted financial practice) of less than 7.88% per annum or through the issuance of preferred shares having a dividend cost of less than 7.88% of the offering price of such shares.

Annually, on July 1, 1982, and each July 1 thereafter to July 1, 1997, Pacific Telephone will be required to set aside a sinking fund payment sufficient to redeem 500,000 of the non-voting preferred shares at a price of $25 per share, equal to an amount of $12,500,000, plus dividends accrued but unpaid to the date fixed for redemption. The company will have the

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non-cumulative option on any such annual redemption date to redeem not more than 500,000 additional such non-voting preferred shares provided, however, that the total number of such shares additionally so redeemed shall not exceed 2,666,666 such shares.

No cash dividends may be paid or declared on common shares if any annual redemption payment or any dividend on the shares is in arrears.

Pacific Telephone intends to issue and sell said non-voting preferred shares by means of private placement to a limited number of institutional investors. The shares will not be registered under the Securities Act of 1933. Salomon Brothers and the First Boston Corporation have been appointed exclusive agents for the Company to place directly not to exceed $200,000,000 par value non-voting preferred capital stock.

A certified copy of Pacific Telephone's Articles of Incorporation, as amended, was filed with the Commission on June 15, 1977 and on the date of filing this application, the Articles of Incorporation were further amended effective June 20, 1977, and action was taken as proposed and set forth in the latest Proxy Statement, a copy of which is attached to the application as Exhibit A. With regard to establishing the proposed new class of non-voting preferred shares, the Proxy Statement states, in part, as follows:

> "In the years immediately ahead, the Company will require large amounts of new capital to finance the construction of additional plant to meet the service requirements of its customers. The Board of Directors believes that the authorization of a new class of preferred shares as part of the capital structure of the Company will provide flexibility in meeting its future financing needs."

The Operations Division of the Commission staff has extensively evaluated the construction expenditure requirements of Pacific Telephone for the 12 months ending June 30, 1976 in Application No. 55492. Gross construction requirements in excess of $1 billion were found by the staff to be reasonable for this period. Review of current three year future estimates by the Operations Division confirms the need for gross construction expenditures in each of the next two years in excess of $1.25 billion. These expenditures are required to meet customer growth and movement, modernization and plant replacement.

Pacific Telephone proposes to use the proceeds received from the issuance of its non-voting preferred shares for the reimbursement of the treasury, to the extent such proceeds are sufficient therefor, for monies actually expended since October 22, 1922, from income and from other treasury funds, which expenditures on April 30, 1977, amounted to the sum of $1,675,847,931, said sum having been expended for the acquisition of property and for the construction, completion, extension and improvement of the plant and facilities. Exhibit C attached to the application contains a tabulation of such unreimbursed expenditures which are summarized herein as follows:

		Amount
Total capital expenditures, October 31, 1922 to April 30, 1977		$10,456,851,294
Deduct proceeds of:		
Stock issues	$2,611,814,207	
Promissory notes	536,533,000	
Funded debt	3,422,781,100	
Other	147,082,442	
Total deductions		6,718,210,749
Balance obtained from other sources		3,738,640,545
Less: Reserve for Depreciation		2,062,792,614
Unreimbursed balance		$ 1,675,847,931

Pacific Telephone's capital ratios as recorded on April 30, 1977 and as adjusted to give effect to the proposed preferred stock are as follows:

	April 30, 1977	
	Recorded	Pro forma
Debt	52.30%	49.70%
Preferred stock	1.06	3.66
Common stock equity	46.64	46.64
Total	100.00%	100.00%

After considering the matter, the Commission finds that:

1. The proposed issue and sale of not to exceed $200,000,000 principal amount non-voting preferred stock is for a proper purpose pursuant to California Public Utilities Code §817(h).
2. Applicant has need for the external funds to be raised by the proposed issue and sale of non-voting preferred stock.
3. The terms and conditions of the proposed non-voting preferred stock issue and sale, including the redemption provisions, are just and reasonable and in the public interest.
4. The issue and sale of the non-voting preferred stock by means of private placement is just and reasonable and in the public interest.
5. The money, property or labor to be procured or paid for by the issue and sale of the non-voting preferred stock herein authorized is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

6. It is in the public interest to authorize Applicant to obtain adequate financing through the issue and sale of its non-voting preferred stock, and there is no reason to delay granting the requested authority.

On the basis of the foregoing consideration and findings, we conclude that the application should be granted. A public hearing is not necessary. The authorization granted herein is for the purposes of this proceeding only, and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. The Pacific Telephone and Telegraph Company is hereby authorized to issue and sell for cash not to exceed $200,000,000 principal amount of non-voting preferred stock, in the form and manner as set forth in this opinion.

2. The Pacific Telephone and Telegraph Company shall use the proceeds to be derived from the issuance and sale of said non-voting preferred stock to reimburse, so far as possible, its treasury for funds expended as set forth in this opinion and in the verified application.

3. Promptly after The Pacific Telephone and Telegraph Company determines the precise number of non-voting preferred shares to be issued and sold upon execution and delivery of the purchase agreement, it shall notify the Commission in writing.

4. Within 30 days after selling the non-voting preferred stock herein authorized to be issued and sold, The Pacific Telephone and Telegraph Company shall file with the Commission a letter reporting the use of said proceeds substantially in the format set forth in Appendix C of Decision No. 85287, dated December 30, 1975, in Application No. 55214 and Case No. 9832.

5. The Pacific Telephone and Telegraph Company shall file with the Commission a certified copy of its Articles of Incorporation, as amended on June 17, 1977, promptly after said Articles are received from the Secretary of State.

6. This order shall become effective when The Pacific Telephone and Telegraph Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is $106,000.

Dated at San Francisco, California, this 28th day of JUNE, 1977.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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By

Robert Batinovich
President
William Symons Jr.
Vernon L. Sturgeon
Richard D. Gravelle

Commissioners