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Decision No. 88229 DEC 13 1977

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, to issue and sell $100,000,000 par value of non-voting preferred capital stock.

Application No. 57660
(Filed November 1, 1977)

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific Telephone) requests authority to issue and sell $100,000,000 aggregate par value of non-voting cumulative preferred stock, consisting of 4,000,000 shares having a par value of $25 per share.

Such shares would constitute the second series of Pacific Telephone's class of non-voting preferred shares. This class of preferred shares is referred to herein as "non-voting" shares to distinguish it from the previously existing class of preferred shares, which is referred to as "voting" preferred shares. The class of non-voting preferred shares, however, has limited voting rights in the event of certain defaults in dividends or certain other changes affecting its interests, as provided in Pacific Telephone's Articles of Incorporation, as amended. The holders of non-voting preferred shares have no preferential right to subscribe for newly issued shares of any class of common or preferred stock, or rights thereto, or any securities convertible into such shares.

The holders of shares of the proposed second series of non-voting preferred shares (the 8% Series) will be entitled to receive, when and as declared by the Board of Directors of the corporation, dividends at the rate of 8% of the par value thereof per annum, and no more, payable quarterly. Such dividends will be cumulative with respect to each share from the date of issuance thereof. Any partial payment of dividends would be made on a _pro rata_ basis for all issues of preferred shares (including voting preferred and non-voting preferred).

The shares of the 8% Series 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 November 30, 1978, to $25 on December 1, 2002, plus, in each case, dividends accrued but unpaid to the date fixed for redemption.

Prior to December 1, 1987, such 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 8% per annum or through the issuance of shares ranking prior to the common shares and having a dividend cost of less than 8% of the offering price of such shares.

The shares of the 8% Series will be subject to redemption through the operation of a sinking fund. Pacific Telephone will be required to set aside in cash, annually on December 1 in each year commencing with December 1, 1982 and ending on December 1, 2001, an amount sufficient to redeem 190,000 of such shares, and on December 1, 2002, an amount sufficient to redeem 200,000 of the shares, in each case at a price of $25 per share plus dividends accrued but unpaid to the date fixed for redemption. Pacific Telephone will have the non-cumulative option on any such annual redemption date to redeem not more than 190,000 additional such non-voting preferred shares provided, however, that the total number of such shares additionally so redeemed shall not exceed 1,000,000 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. Pacific Telephone has engaged two investment banking firms to place directly not to exceed $100,000,000 par value of non-voting preferred shares.

In its application, Pacific Telephone states that it has need to raise approximately $400,000,000 through long-term debt and equity financing. Consequently, it filed contemporaneously with the instant application an application for authorization to issue and sell not to exceed $300,000,000 of Forty Year Debentures due January 15, 2018.

The Operations Division of the Commission staff extensively evaluated Pacific Telephone's construction requirements for the twelve months ended June 30, 1976 in connection with Application No. 55492 and concluded that expenditures exceeding $1,000,000,000 were reasonable. Company estimates for the years 1977 through 1979 indicate the need for $4,300,000,000 gross construction outlays related to customer growth and movement, and for plant modernization and replacement as follows:

Item	
Customer growth	$2,600,000,000
Customer movement	850,000,000
Plant modernization	550,000,000
Plant replacement	300,000,000
Total	$4,300,000,000

Review of these estimates confirms the necessity for such expenditures; the Operations Division reserves the right, however, to reconsider the reasonableness of any construction expenditures in future rate proceedings.

Pacific Telephone proposes to use the proceeds received from the issuance of this series 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 September 30, 1977, amounted to the sum of $2,035,846,279, said sum having been expended for the acquisition of property and for the construction, completion, extension and improvement of plant and facilities. Exhibit B 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 September 30, 1977		$10,905,593,621
Deduct proceeds of:		
Stock issues	$2,811,814,207	
Promissory notes	349,889,000	
Funded debt	3,422,781,100	
Other	147,082,442	
Total deductions		6,731,566,749
Balance obtained from other sources		4,174,026,872
Less: Reserve for Depreciation		2,138,180,593
Unreimbursed balance		$ 2,035,846,279

Pacific Telephone's capital ratios as recorded on September 30, 1977 and as adjusted to give effect to the proposed issues of preferred shares and debentures are as follows:

	September 30, 1977	
	Recorded	Pro forma
Debt	49.4%	48.1%
Preferred stock	3.6	4.9
Common stock equity	47.0	47.0
Total	100.0%	100.0%

After considering the matter, the Commission finds that:

1. The proposed issue and sale of not to exceed $100,000,000 par value of non-voting preferred shares is for a proper purpose pursuant to California Public Utilities Code Section 817(h).

2. Applicant has need for the external funds to be raised by the proposed issue and sale of non-voting preferred shares.

3. The terms and conditions of the proposed issue and sale of such non-voting preferred shares, including the redemption provisions, are just and reasonable and in the public interest.

4. The issue and sale of the non-voting preferred shares 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 shares 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 shares, 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.

ORDER

IT IS ORDERED that:

1. The Pacific Telephone and Telegraph Company is hereby authorized to issue and sell for cash not to exceed $100,000,000 par value of non-voting preferred shares, 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 shares to reimburse, so far as possible, its treasury for funds expended as set forth in this opinion and in the verified application.

3. Within 30 days after selling the non-voting preferred shares herein authorized to be issued and sold, The Pacific Telephone and Telegraph Company shall file with the Commission a letter reporting the number of such shares issued and sold and the use of the proceeds therefrom 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. It shall also include in this letter the amounts of all fees paid to investment banking firms for services rendered by them in placing the issue of 8% Series shares.

4. The Pacific Telephone and Telegraph Company shall file with the Commission a certified copy of its Articles of Incorporation, as amended on November 28, 1977, promptly after said Articles are received from the Secretary of State.

5. 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 $56,000.

Dated at San Francisco, California, this 13th day of DECEMBER, 1977.

Robert Batinovich
President

William Symons Jr.
Vernon L. Sturgeon
Richard D. Gravelle
Claire T. Dedrick
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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By