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Decision No. 88230 DEC 13 1977

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE )  
AND TELEGRAPH COMPANY, to issue and )  
sell through competitive bidding not )  
to exceed \$300,000,000 principal )  
amount of Forty Year Debentures due )  
January 15, 2018, and to execute and )  
deliver an Indenture. )

Application No. 57661  
(Filed November 1, 1977)

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific Telephone) requests authority to execute and deliver an Indenture and to issue and sell, at competitive bidding, not exceeding \$300,000,000 principal amount of Forty Year Debentures<sup>1/</sup> due January 15, 2018.

Pacific Telephone has need at this time to raise approximately \$400,000,000 through long-term debt and equity financing. The company has filed contemporaneously with this application a separate request in Application No. 57660 to issue and sell 4,000,000 shares of its \$25 par value non-voting 8% preferred stock, having an aggregate par value of \$100,000,000.

The proposed Debentures related to this proceeding would be issued under an Indenture between Pacific Telephone and The Bank of California, National Association, as Trustee. A preliminary copy of the Indenture dated as of January 15, 1978 is attached to the application as Exhibit B. Among other things, the Indenture provides that the Debentures may be redeemed at the company's option on or after January 15, 1983. Pacific Telephone states that inclusion of this restriction would result in a lower cost and would broaden the market for its Debentures than would otherwise be the case if such provision were not included.

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<sup>1/</sup> A debenture is an obligation secured by the general credit of the issuer rather than being backed by a specific lien on property.

Pacific Telephone proposes to invite sealed bids for the purchase of the Debentures by newspaper publication, on or about January 3, 1978, of an Invitation for Bids, which invitation will provide that bids for the Debentures will be considered only if made in accordance with and subject to the Statement of Terms and Conditions Relating to Bids. A copy of each of the Invitation for Bids, Statement of Terms and Conditions Relating to Bids, Form of Bids, and Purchase Agreement, substantially in the form proposed to be used by Pacific Telephone in effecting the sale, is attached to the application as Exhibit C. The Debentures will bear interest at the rate fixed by the successful bid.

The company anticipates that the proceeds from the sale will be available on or about January 19, 1978. Accordingly, Pacific Telephone expects to hold \$75,000,000 for a period of about forty days before applying said sum toward retirement of its Thirty Year 3-1/4% Debentures due March 1, 1978. In the interim, Pacific Telephone plans to use said funds to repay short-term borrowings.

Pacific Telephone proposes to use \$225,000,000 of the proceeds received from the issuance and sale of the Forty Year Debentures (other than accrued interest which would be used for general corporate purposes) for the reimbursement of the treasury, to the extent such proceeds are sufficient therefore, for monies actually expended since October 31, 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 D, attached to the application, contains a tabulation of such unreimbursed expenditures which are summarized herein as follows:

	<u>Amount</u>
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	<u>147,082,442</u>
Total deductions	<u>6,731,566,749</u>
Balance obtained from other sources	4,174,026,872
Less: Reserve for Depreciation	<u>2,138,180,593</u>
Unreimbursed balance	<u><u>\$ 2,035,846,279</u></u>

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:

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

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 of gross construction

outlays related to customer growth and movement, and for plant modernization and replacement as follows:

<u>Item</u>	
Customer growth	\$2,600,000,000
Customer movement	850,000,000
Plant modernization	550,000,000
Plant replacement	<u>300,000,000</u>
Total	<u>\$4,300,000,000</u>

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.

The Finance Division has reviewed the application and has concluded that the proposed financing is necessary to implement the company's construction program.

After considering the matter, the Commission finds that:

1. The proposed issue and sale of not to exceed \$300,000,000 principal amount of Forty Year Debentures due January 15, 2018, is for proper purposes.
2. Pacific Telephone has need for the external funds for the purposes set forth in the application.
3. The proposed Indenture would not be adverse to the public interest.
4. The terms and conditions of the proposed issue and sale of Debentures, including the restricted redemption provision, are just and reasonable and in the public interest.
5. The money, property or labor to be procured or paid for by the Debentures herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted. There is no known opposition to the application and no reason to delay granting the authority requested. 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 may execute and deliver an Indenture in substantially the same form as that attached to the application as Exhibit B with appropriate changes applicable to Forty Year Debentures due January 15, 2018.

2. The Pacific Telephone and Telegraph Company may issue, sell and deliver, at competitive bidding, not exceeding \$300,000,000 principal amount of Forty Year Debentures due January 15, 2018, on or before February 28, 1978, at the price offered in the bid, which will result in the lowest annual cost of money to it, as provided for in the Statement of Terms and Conditions Relating to Bids, a copy of which is attached to the application as a part of Exhibit C.

3. The Pacific Telephone and Telegraph Company shall use the proceeds of the issuance and sale of not exceeding \$300,000,000 principal amount of its Forty Year Debentures due January 15, 2018, for the purposes stated in the application, and may apply \$75,000,000 of said proceeds to the repayment of short-term borrowings for the period between the receipt of the proceeds and the retirement on March 1, 1978, of the Thirty Year 3-1/4% Debentures.

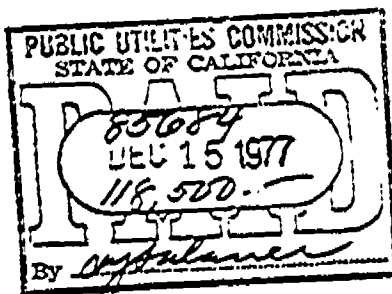
4. Promptly after awarding the contract for the sale of the Forty Year Debentures herein authorized, The Pacific Telephone and Telegraph Company shall file with the Commission a written report, showing as to each bid received, the name of the bidder, the price, the interest rate and the cost of money to the company based on such price and interest rate.

5. As soon as available, The Pacific Telephone and Telegraph Company shall file with the Commission three copies of its Prospectus pertaining to said Forty Year Debentures.

6. Within 30 days after selling the Forty Year Debentures herein authorized to be issued and sold, The Pacific Telephone and Telegraph Company shall file with the Commission a letter reporting the number and amount of such Forty Year Debentures 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.

7. This order shall become effective when The Pacific Telephone and Telegraph Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$118,500.

Dated at San Francisco, California, this 13<sup>th</sup> day  
of DECEMBER, 1977.



Robert Bateman  
President  
William J. Gussow  
Leon L. Stinson  
John D. Gussow  
David A. Gussow  
Commissioners