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Decision No. S0652

AUG 14 1979

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE )  
 AND TELEGRAPH COMPANY for authority )  
 to undertake equity financing through )  
 the issuance and sale of an amount )  
 not to exceed 10,000,000 of the )  
 corporation's authorized but unissued )  
 common shares. )

Application No. 58989  
 (Filed July 10, 1979)

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific Telephone) requests authority to undertake equity financing through the issuance and sale of an amount not to exceed 10,000,000 of the corporation's authorized but unissued common shares.

Pacific Telephone requests this authority pursuant to Sections 816 through 818 of the Public Utilities Code. Notice of the filing of the application appeared on the Commission's Daily Calendar of July 13, 1979.

Pacific Telephone proposes to use \$35,000,000 of the proceeds from such issuance and sale of common shares to retire its outstanding 3-1/4% Debentures, due November 15, 1979. Pacific Telephone proposes to use the remainder of the proceeds to reimburse its treasury for moneys actually expended for capital purposes from income and other treasury funds of Pacific Telephone and its subsidiary (Bell Telephone Company of Nevada). Such expenditures amounted to a cumulative total of \$2,614,573,110 as of May 31, 1979, as set forth in the following summary:

	<u>Amount</u>
Total capital expenditures, October 31, 1922 to May 31, 1979	\$13,100,530,246
Deduct proceeds of:	
Stock issues	\$3,111,814,207
Promissory notes	240,417,000
Funded debt	4,472,781,100
Other	<u>147,635,231</u>
Total deductions	<u>7,972,647,538</u>
Balance obtained from other sources	5,127,882,708
Less: Reserve for depreciation	<u>2,513,309,598</u>
Unreimbursed balance	\$ 2,614,573,110

Pacific Telephone anticipates that the proceeds from the sale would be available on or about September 26, 1979. When the treasury has been reimbursed, as described above, Pacific Telephone intends to apply an equivalent amount to repayment of its then outstanding short-term borrowings.

Pacific Telephone's capital ratios as recorded on May 31, 1979 and as adjusted to give effect to (1) the sale on June 28, 1979 of \$300,000,000 of debentures authorized by Commission Decision No. 90419, dated June 15, 1979 in Application No. 58552; and (2) the proposed sale of the common shares, assuming proceeds of \$140,000,000 which are anticipated will be available to Pacific Telephone on or about September 26, 1979, together with the estimated interium debt at that date, are as follows:

	<u>May 31, 1979</u>	
	<u>Recorded</u>	<u>Pro Forma</u>
Funded debt	50.8%	52.3%
Short-term borrowings	2.7	1.2
Preferred stock	6.5	6.3
Common equity	<u>40.0</u>	<u>40.2</u>
	<u>100.0%</u>	<u>100.0%</u>

Pacific Telephone's estimates for the year 1979 indicate the need for \$2,095,000,000 gross construction outlays related to customer growth and movement, and for plant modernization and replacement as follows:

<u>Item</u>	
Customer growth	\$1,271,000,000
Customer movement	326,000,000
Plant modernization	340,000,000
Plant replacement	<u>158,000,000</u>
Total	\$2,095,000,000

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

The proposed sale of common shares is planned to be made by means of an offering to the public through a nationwide group of underwriters who will agree to purchase the proposed issue pursuant to an underwriting agreement. A form of the agreement is attached to the application as Exhibit B. The sale is contingent upon, among other things, the adoption by Pacific Telephone's voting preferred and common shareholders of an amendment to the Articles of Incorporation to waive the preemptive rights granted under Article SEVENTH with respect to 20,000,000 of its authorized but unissued common shares.

The final terms of the underwriting agreement and other terms of the proposed offering, including the price at which the common stock will be offered to the public, the aggregate number of shares to be so offered, and the price at which the shares will be sold to the underwriters, will be determined by negotiation between Pacific Telephone and the underwriters shortly before the proposed public offering.

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Pacific Telephone intends to make arrangements to accommodate its shareholders who wish to purchase shares under the proposed offering. Such accommodation will be facilitated through the underwriters who will market the shares. The sale of the shares will be made only through a prospectus.

Pacific Telephone's Consolidated Balance Sheet as of May 31, 1979, including its subsidiary, is attached to the application as Exhibit A and shows the following data:

Assets

Telephone Plant less Accumulated Depreciation	\$10,703,206,314
Current Assets	945,193,829
Deferred Charges	199,859,557
Total	<u>\$11,848,259,700</u>

Liabilities and Common Equity

Common Equity	\$ 4,161,752,827
Long-Term Debt	4,512,000,000
Current Liabilities	2,436,808,556
Deferred Credits	737,698,317
Total	<u>\$11,848,259,700</u>

The Consolidated Income Statements included in the annual report to the Commission for the calendar year 1978 shows that the company generated total operating revenues and net income of \$4,449,175,816 and \$414,626,268, respectively. In the fiscal year ended May 31, 1979 as shown in the Stockholders' Report provided to the Commission's staff Pacific Telephone shows it generated total operating revenues and net income of \$4,692,175,000 and \$341,922,000, respectively.

The Revenue Requirements Division agrees that the proposed equity financing is necessary to implement the utility's construction program.

Findings of Fact

1. Pacific Telephone is a California corporation operating under the jurisdiction of this Commission.

2. The proposed sale of common shares is for proper purposes.

3. The utility has need for external funds for the purposes set forth in the application.

4. The terms and conditions of the proposed issue and sale of common shares are just and reasonable and in the public interest.

5. There is no known opposition and there is no reason to delay granting the authority requested.

6. The money, property or labor to be procured or paid for by the issuance and sale of the common shares 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.

Conclusions of Law

1. The application should be granted to the extent set forth in the order which follows.

2. A public hearing is not necessary

In issuing our order herein, we place Pacific Telephone and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return it should be allowed to earn on its investment in plant, and that the authorization herein granted is not to be construed as a finding of the value of the company's stock or properties nor 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 issue, sell and deliver, on or before December 31, 1979, an amount not to exceed 10,000,000 shares of its authorized but unissued common shares in accordance with the application and the terms and provisions of an underwriting agreement substantially in the form filed as Exhibit B to the application.

2. The Pacific Telephone and Telegraph Company shall use the proceeds of the issuance and sale of not exceeding 10,000,000 common shares for the purposes stated in the application and may apply \$35,000,000 of said proceeds for the retirement on November 15, 1979 of its 3-1/4% Debentures and the repayment of short-term borrowings if the proceeds from the shares of common stock to be sold will be available to Applicant on or before November 15, 1979 or the reimbursement of Applicant's treasury therefor if such proceeds will be available to Applicant after November 15, 1979.

3. Promptly after The Pacific Telephone and Telegraph Company determines the price or prices pertaining to the securities herein authorized, it shall notify the Commission thereof in writing.

4. As soon as available, The Pacific Telephone and Telegraph Company shall file with the Commission three copies of the final prospectus pertaining to the common shares herein authorized.

5. Within 30 days after selling the common 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 common 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.

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 \$58,500.

Dated at San Francisco, California, this 14<sup>th</sup> day of AUGUST, 1979.

John E. Byrne  
President

Hermon L. Stegman

Richard D. Gravelle  
Richard D. Gravelle  
Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

PUBLIC UTILITIES COMMISSION  
STATE OF CALIFORNIA  
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