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Decision No. 91380 MAR 4 1980 ORIGINAL

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 $100,000,000 par value of non-voting preferred shares	Application No. 59354 (Filed December 26, 1979)

OPINION

The Pacific Telephone and Telegraph Company (Pacific Telephone) requests authority to issue and sell not to exceed $100,000,000 aggregate par value of non-voting cumulative preferred shares, consisting of up to 4,000,000 shares having a par value of $25 per share.

Authority is sought 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 January 2, 1980.

The proposed preferred shares would constitute the fifth and sixth 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 proposed holders of shares of the proposed fifth (the 10.50% Series) and sixth (the 11.25% Series) series of non-voting preferred shares will be entitled to receive, when and as declared by the Board of Directors of the corporation, dividends at the rate of 10.50% and 11.25% respectively, 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 10.50% Series may be redeemed at the option of Pacific Telephone, in whole or in part, upon thirty (30) days' notice, on any date on or after March 15, 1985, at per share prices declining annually and proportionately from $25 plus a premium equal to $1.17 to and including March 14, 1986 to $25 on or after March 15, 1989, plus, in each case, dividends accrued but unpaid to the date fixed for redemption. However, shares of the 10.50% Series 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 10.50% per annum or through the issuance of shares ranking prior to the common shares and having a dividend cost of less than 10.50% of the offering price of such shares.

The shares of the 11.25% Series may be redeemed at the option of Pacific Telephone, in whole or in part, upon thirty (30) days' notice, on any date on or after March 15, 1985, at per share prices declining annually and proportionately from $25 plus a premium equal to $2.07 to and including March 14, 1986, to $25 on or after March 15, 1999, plus, in each case, dividends accrued but unpaid to the date fixed for redemption. Prior to March 15, 1990, 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 11.25% per annum or through the issuance of shares ranking prior to the common shares and having a dividend cost of less than 11.25% of the offering price of such shares.

The shares of both 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 March 15, commencing with March 15, 1986, an amount sufficient to redeem 20% of the shares of the 10.50% Series, and annually on March 15, commencing with March 15, 1985, an amount sufficient to redeem 6.25% of the shares of the 11.25% Series, 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 double the number of shares of each series to be redeemed, provided, however, that the total number of shares of each series additionally so redeemed shall be limited to 30% of the shares of the 10.50% Series and 30% of the shares of the 11.25% Series.

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

Pacific Telephone intends to issue and sell the proposed 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 an investment banking firm to place the shares directly. Pacific Telephone anticipates that some shares of each series will be issued and payment therefor received on or about March 12, 1980; the remaining shares of each series will be issued and payment therefor received on or about July 16, 1880.

In its application, Pacific Telephone states that it has need to raise capital to enable it to meet its construction budget. The Revenue Requirements Division of the Commission staff has reviewed Pacific Telephone's gross construction outlays planned for the year 1980 which indicate the need for approximately $2,376,000,000, related to customer growth and movement, and for plant modernization and replacement as follows:

Item	
Customer growth	$1,395,000,000
Customer movement	420,000,000
Plant modernization	396,000,000
Plant replacement	165,000,000
Total	$2,376,000,000

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

Pacific Telephone proposes to use the proceeds received from the issuance of these non-voting preferred shares for the reimbursement of its treasury, to the extent such proceeds are sufficient therefor, for monies actually expended since October 31, 1922, from income and from other treasury funds, which expenditures on October 31, 1979, amounted to the sum of $2,793,038,682, 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 October 31, 1979		$13,865,045,092
Deduct proceeds of:		
Stock issues	$3,111,814,207	
Promissory notes	414,308,000	
Funded debt	4,772,781,100	
Other	147,635,231	
Total deductions		8,446,538,538
Balance obtained from other sources		5,418,506,554
Less: Reserve for Depreciation		2,625,467,872
Unreimbursed balance		$ 2,793,038,682

Pacific Telephone's capital ratios as of October 31, 1979 and its pro forma capital ratios at February 29, 1980, giving effect to (1) the sale on November 14, 1979 of $300,000,000 principal amount of Forty Year 12.70% Debentures due November 15, 2019,[1/] (2) the retirement at maturity of $35,000,000 principal amount of Twenty-Seven Year 3-1/4% Debentures on November 15, 1979, (3) the proposed sale of $300,000,000 aggregate principal amount of debt securities on or about February 26, 1980,[2/] (4) the retirement at maturity of $100,000,000 principal amount of Applicant's Seven Year 7-1/4% Notes due June 1, 1980, and (5) the proposed sale of $100,000,000 par value of non-voting preferred shares on or before December 31, 1980, are as follows:

	October 31, 1979	Pro Forma
Common Equity	38.6%	36.7%
Preferred Stock	6.1	6.8
Debt	55.3	56.5
	100.0%	100.0%

The Revenue Requirements Division has reviewed Pacific Telephone's cash requirements and concludes that the proposed preferred stock issue is necessary.

Findings of Fact

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

2. The proposed sale of preferred stock is for proper purposes.

3. Pacific Telephone has need for external funds for the purposes set forth in this proceeding.

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

1/ Authorized by Decision No. 90884, dated October 10, 1979, in Application No. 59090.

2/ Authorized by Decision No. 91327, dated February 13, 1980, in Application No. 59327.

5. The money, property or labor to be procured or paid for by the issuance and sale of the preferred shares herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargable to operating expenses or to income.

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

Conclusions of Law

1. A public hearing is not necessary.

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

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 authority 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 is hereby authorized to issue and sell for cash, on or before December 31, 1980, not to exceed $100,000,000 par value of non-voting preferred shares, in the form and manner as set forth in its application and 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 its application and this opinion.

3. Within 30 days after all the non-voting preferred shares herein authorized have been issued and payment therefor received, 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 shares.

4. 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 MAR 4 1980, at San Francisco, California.

John E. Bryson
President

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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By M.E. Casaurdon