

A.59462 RR/mcm

Decision No. 91748 MAY 6 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 10,000,000 of its authorized but unissued common shares by means of an offer for subscription and sale for cash to the holders of its voting preferred and common shares.

Application No. 59462
(Filed February 20, 1980)
and Amendment
(Filed April 17, 1980)

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 stock by means of an offer for subscription and sale for cash to the holders of its voting preferred and common stock.

Pacific Telephone also proposes that the Commission rescind Decision No. 90652, dated August 14, 1979, as modified by Decision No. 91114, dated December 8, 1979, in Application No. 58989, which authorized the utility to issue and sell 10,000,000 shares of its common stock by means of an underwritten offering to the public. The company further proposes that a portion of the fees it paid in connection with that authority be applied against any fee required for authority granted in this proceeding.

By Decision No. 91749, dated MAY 6 1980, in Application No. 58989 we rescinded Decisions Nos. 90652 and 91114, and authorized the transfer of \$66,000 of the fees, already paid thereunder, toward the fee required for any authority granted in this Application.

Pacific Telephone requests this authority to issue its common stock pursuant to Sections 816 through 818 of the Public Utilities Code. Notice of the filing of the application and the amendment appeared on the Commission's Daily Calendars of February 21, 1980 and April 21, 1980, respectively.

Pacific Telephone plans to use the \$120,000,000 it expects to realize on the proposed common stock issue for the reimbursement of its treasury, to the extent that such proceeds are sufficient therefore, for moneys actually expended from income and other treasury funds of Pacific Telephone and its subsidiary (Bell Telephone Company of Nevada). Such unrefunded expenditures on December 31, 1979 amounted to the sum of \$2,955,295,849 as set forth in the following summary:

Total capital expenditures:

October 31, 1922 to December 31, 1979	\$14,191,618,139
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Deduct proceeds of:

Stock issues	\$3,111,814,207
Promissory notes	278,273,000
Funded debt	5,037,781,100
Other	<u>147,635,231</u>

Total deductions	<u>8,575,503,538</u>
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Balance obtained from other sources	5,616,114,601
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Less: Reserve for depreciation	<u>2,660,818,752</u>
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Unreimbursed balance	<u>\$ 2,955,295,849</u>
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Pacific Telephone anticipates that the proceeds from the sale of common stock would be available on or about July 31, 1980.

Pacific Telephone's capital ratios as recorded on December 31, 1979 and as adjusted to give effect to (1) the sale on February 27, 1980 of \$300,000,000 of debt securities authorized by Commission Decision No. 91327, dated February 13, 1980, in Application No. 59327, (2) the retirement at maturity of \$100,000,000 principal amount of Pacific Telephone's seven-year 7-1/4 percent Notes due June 1, 1980, (3) the proposed sale of additional non-voting preferred stock authorized by Decision No. 91380, dated March 4, 1980 in Application No. 59354 assuming proceeds of \$53,000,000, the proceeds to be available by July 1980, and (4) the proposed sale of not to exceed 10,000,000 shares of common stock on or before July 31, 1980, assuming proceeds of \$120,000,000 are as follows:

	<u>December 31, 1979</u>	
	<u>Recorded</u>	<u>Pro Forma</u>
Funded debt	53.1%	50.9%
Short-term borrowings	2.9	6.8
Preferred stock	6.0	6.1
Common equity	<u>38.0</u>	<u>36.2</u>
	<u>100.0%</u>	<u>100.0%</u>

Pacific Telephone's estimates for the year 1980 indicate the need for \$2,472,000,000 gross construction outlays related to customer growth and movement, and for plant modernization and replacement as follows:

<u>Item</u>	<u>Amount</u>
Customer growth	\$1,472,000,000
Customer movement	426,000,000
Plant modernization	405,000,000
Plant replacement	<u>169,000,000</u>
Total	<u>\$2,472,000,000</u>

Review of these construction 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.

Pacific Telephone, by an Amendment to its Application No. 59462, filed April 17, 1980, indicates the terms and conditions of the proposed offering in Exhibit C, attached to the amended application.

Pacific Telephone proposes that on or about June 9, 1980, it will mail to its voting preferred and common shareholders of record on June 3, 1980, warrants evidencing rights to subscribe for the additional common stock. Such rights would expire at the close of business on June 30, 1980. The subscription price would be equal to the closing price on the New York Stock Exchange of Pacific Telephone's common stock on the day on which such shares were traded on such exchange next preceding the day on which a Registration Statement relating to such shares, filed with the Securities and Exchange Commission, becomes effective.

Pacific Telephone proposes to make the offering to its shareholders in the ratio of one (1) common share for each eighteen (18) common shares outstanding and seven (7) common shares for each eighteen (18) voting preferred shares outstanding. Thus, the number of shares to be offered will be 9,624,824. This number is determined by adding seven-eighths of the 820,000 outstanding shares of \$100 par value voting preferred stock to one-eighteenth of the 168,587,914 outstanding shares of \$14-2/7 par value common stock.

Pacific Telephone also proposes to offer for sale, as a supplemental purchase privilege, any of the additional shares of common stock which remain unissued and unsold after subscriptions under the basic purchase privilege, described above, have been satisfied, at the price per share fixed as aforesaid. The warrants evidencing the right to subscribe for additional shares of common stock pursuant to the basic purchase privilege will also provide for the supplemental purchase privilege.

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

<u>Assets</u>	<u>Amount</u>
Telephone Plant less Accumulated Depreciation	\$11,644,682,000
Current Assets	1,098,086,000
Deferred Charges	<u>192,180,000</u>
Total	<u>\$12,934,948,000</u>
 <u>Liabilities and Common Equity</u>	
Equity	\$ 4,238,398,000
Long-Term Debt	4,922,000,000
Current Liabilities	2,992,616,000
Deferred Credits	<u>781,934,000</u>
Total	<u>\$12,934,948,000</u>

The Consolidated Income Statement included as part of Exhibit A attached to the application, for the calendar year 1979, shows that the company generated total operating revenues and net income of \$5,005,174,000 and \$355,209,000, 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 stock 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 stock 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 stock 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.

7. The fee prescribed by Section 1904.1 of the Public Utilities Code in the amount of \$66,000 is applied to this proceeding by Decision No. 91749, dated MAY 6 1980, in Application No. 58989.

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 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, 1980 an amount not to exceed 10,000,000 shares of its authorized but unissued common stock in accordance with the application as amended and the terms and provisions of an underwriting agreement substantially in the form filed as Exhibit C, and made a part of the amended application.

2. The Pacific Telephone and Telegraph Company shall use the proceeds of the issuance and sale of not exceeding 10,000,000 shares of its common stock for the purpose stated in the application, which purpose is the reimbursement of its treasury.

3. When The Pacific Telephone and Telegraph Company determines the price or prices pertaining to the securities herein authorized, it shall promptly 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 stock herein authorized.

5. Within 30 days after selling the common stock 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 stock issued and sold and the use of the proceeds therefrom.

6. The fee prescribed by Section 1904.1 of the Public Utilities Code in the amount of \$66,000 is applicable to this proceeding and has been transferred to this proceeding by Decision No. 91749, dated MAY 6 1980, in Application No. 58989.

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7. The effective date of this order is the date hereof.

Dated MAY 6 1980 at San Francisco, California.

John E. Bryan
President
Thomas L. Stinson
Richard D. Howell
Clare T. DeFuria
Arnold W. Spurr
Commissioners