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Decision No. 92190 ↓ SEP 3 - 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 \$300,000,000  
aggregate principal amount of  
Debentures and/or Notes and to  
execute and deliver an Indenture  
or Indentures.

Application No. 59839  
(Filed July 28, 1980)

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific) requests authority to execute and deliver an indenture or indentures and to issue and sell by competitive bidding not to exceed \$300,000,000 aggregate principal amount of debentures and/or notes (debt securities) having a term or terms each not exceeding forty years. Pacific requests this authority pursuant to Sections 816 through 818 of the Public Utilities Code.

Notice of the filing of the application was published on the Commission's Daily Calendar of July 31, 1980. The Commission has received no protests in the proceeding.

The purpose of the proposed financing is to reimburse Pacific's treasury for moneys actually expended for capital purposes from income and from other treasury funds of Pacific and its subsidiary. Such expenditures amounted to a cumulative total of \$3,104,730,531 as of June 30, 1980, as set forth in the following summary:

	<u>Amount</u>
Total Capital Expenditures, October 31, 1922 to June 30, 1980	\$15,099,464,218
Deduct Proceeds of:	
Stock Issues	\$3,268,743,563
Promissory Notes	557,929,000
Funded Debt	5,237,781,100
Other	<u>147,635,231</u>
Total Deductions	<u>9,212,088,894</u>
Balance Obtained from Other Sources	5,887,375,324
Less Reserve for Depreciation	<u>2,782,644,793</u>
Unreimbursed Balance	<u>\$ 3,104,730,531</u>

Pacific anticipates that the proceeds from the sale would be available on or about November 6, 1980. Pacific expects to apply the proceeds (other than accrued interest which would be used for general corporate purposes) toward reimbursement of the treasury as previously mentioned herein. When the treasury has been reimbursed, Pacific intends to apply an equivalent amount to repayment of its then outstanding short-term borrowings which are expected to be about \$875,000,000 by the end of October 1980 in the absence of the proposed financing.

Pacific's capital ratios as recorded on June 30, 1980 and as adjusted as of October 31, 1980 to give effect to (a) the receipt in July of proceeds of about \$7.0 million related to the June 1980 common stock issue,<sup>1/</sup> (b) the sale on July 16 of \$150 million of Forty-Year 12.35% Debentures due July 15, 2020 and of \$150 million of Ten-Year 11.35% Notes due July 15, 1990,<sup>2/</sup> (c) the issuance on July 16, of 600,000 non-voting preferred shares amounting to \$15,000,000,<sup>3/</sup> (d) the retirement of \$90,000,000 principal amount of

<sup>1/</sup> Authorized by Decision No. 91748, dated May 6, 1980, in Application No. 59462.

<sup>2/</sup> Authorized by Decision No. 91845, dated June 3, 1980, in Application No. 59618.

<sup>3/</sup> Authorized by Decision No. 91380, dated March 4, 1980, in Application No. 59354.

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debentures due August 1, 1980, and (e) the proposed sale of \$300,000,000 aggregate principal amount of debt securities on or about October 28, 1980 are as follows:

<u>Item</u>	<u>Recorded</u>	<u>Pro Forma</u>
Common Equity	36.9%	35.1%
Preferred Stock	6.0	5.9
Funded Debt	51.7	53.7
Short-Term Borrowings	<u>5.4</u>	<u>5.3</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Pacific's estimates for the year 1980 indicate the need for \$2,517,000,000 gross construction outlays related to customer growth and movement, and for plant modernization and replacement as follows:

<u>Item</u>	
Customer Growth	\$1,401,000,000
Customer Movement	592,000,000
Plant Modernization	377,000,000
Plant Replacement	<u>147,000,000</u>
Total	<u>\$2,517,000,000</u>

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 debt securities are to be issued under an indenture or indentures between Pacific and The Bank of California, National Association, as Trustee. In previous issues of Pacific's debt securities, the form of indenture provided that the securities could not be redeemed until on or after a date five years from the date of the indenture. Pacific expects that a similar provision will be employed for the proposed issue(s) of debt securities. However, market conditions and Pacific's financial situation on or about the sale date may require some alternative redemption provision. Thus,

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the debt securities will be either nonredeemable or redeemable, and if redeemable the terms and conditions of such redemption, all as the Chairman of the Board of Directors, the President, the Vice President-Finance and Secretary, or the Treasurer of Pacific shall determine.

Pacific proposes to sell the debt securities by means of a competitively bid underwriting by a nationwide group or groups of investment banking firms. The underwriters would purchase all of the debt securities, in accordance with a purchase agreement or agreements substantially in the form attached to the application as part of Exhibit C.

#### Discussion

We have in the past stressed the importance of utilities maintaining a balanced capital structure in order to be financially sound, to maintain financial flexibility, and to be able to attract capital at reasonable rates. We are, therefore, deeply concerned with Pacific's extremely high debt ratio which on a pro forma basis will approximate 50%. We believe that a significant amount of additional equity capital is necessary to balance Pacific's capital structure, and should be given primary attention in future financing plans of Pacific.

#### Findings of Fact

1. Pacific Telephone is a California corporation operating under the jurisdiction of this Commission.
2. The proposed sale of debt securities is for proper purposes.
3. The utility has need for external funds for the purposes set forth in this proceeding.
4. The terms and conditions of the proposed issuance and sale of debt securities are just and reasonable and in the public interest.

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5. The money, property or labor to be procured or paid for by the issuance and sale of the debt securities herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

6. The debt securities being unsecured, no California property would become encumbered thereby.

7. There is no known opposition and 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.

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 issue and sell by competitive bidding, on or before January 31, 1981, not exceeding \$300,000,000 aggregate principal amount of debt securities in accordance with the application and the terms and provisions of a purchase agreement or agreements substantially in the form filed as a part of Exhibit C to the application, with a term or terms each not to exceed forty years, with a maturity date or dates related to the actual sale date and with redemption features appropriate to market conditions existing at about that time.

2. The Pacific Telephone and Telegraph Company is authorized to execute and deliver an indenture or indentures substantially in the form filed as Exhibit B to the application, with maturity, interest payment and other relevant dates appropriate to the actual sale date of said debt securities, except that the redemption provision may be modified or deleted as provided in the application.

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 said debt securities for the purposes stated in the application (accrued interest may be used for general corporate purposes).

4. The Pacific Telephone and Telegraph Company shall file with the Commission a written report showing as to each bid received, the name of the bidders, the price, the interest rate, and the cost of money to it based upon the price and interest rate.

5. As soon as available, The Pacific Telephone and Telegraph Company shall file with the Commission three copies of each prospectus pertaining to the debt securities.

6. Within thirty days after selling the debt securities herein authorized to be issued and sold, The Pacific Telephone and Telegraph Company shall file with the Commission a letter reporting the amount of such debt securities 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.

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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 \$156,000.

Dated SEP 3 - 1980, at San Francisco, California.

John E. Guyon  
President  
James P. Stanger  
Richard W. Lowell  
Clara T. Adams  
Edward W. ...  
Commissioners

