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Decision No. 92248 SEP 16 1980**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELEPHONE
AND TELEGRAPH COMPANY, for an Order
authorizing the issuance of a number
of its common shares to produce
proceeds not to exceed \$17,700,000 on
or about September 15, 1980 to fund
participation in the Bell System
Employee Stock Ownership Plan for tax
year 1979.

Application No. 59896
(Filed August 22, 1980)

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific) requests authority, pursuant to Sections 816 through 818 of the Public Utilities Code, to issue and sell a number of its common shares to produce proceeds not to exceed \$17,700,000 on or about September 15, 1980 in connection with its participation in the Bell System Employee Stock Ownership Plan (the Plan) in 1980 for tax year 1979. Notice of the filing of the application appeared on the Commission's Daily Calendar of August 28, 1980.

Pacific is a California corporation, sole owner of Bell Telephone Company of Nevada, and a subsidiary of the American Telephone and Telegraph Company which owns 89% of Pacific's common shares. Pacific is a public telephone utility engaged in the business of providing local and long-distance telephone service in the State of California. Pacific's system is composed of local and long-distance telephone lines and exchanges, buildings, rights-of-way, franchises and equipment.

During calendar year 1979, Pacific reported total operating revenues of \$4,876,956,868 and net income of \$236,189,445. For the first six months of 1980 for the period ending June 30, 1980, Pacific reports it generated total operating revenues of \$2,774,670,000 and net income of \$188,745,000.

Pacific's balance sheet as of June 30, 1980, shown as Exhibit A attached to the application, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Telephone Plant	\$12,429,300,000
Current Assets	925,300,000
Deferred Charges	<u>221,300,000</u>
Total	<u>\$13,575,900,000</u>
 <u>Liabilities and Common Equity</u>	
Common Equity	\$ 3,795,400,000
Preferred Stock	620,000,000
Long and Intermediate Term Debt	5,222,000,000
Current Liabilities	3,014,700,000
Deferred Credits	<u>923,800,000</u>
Total	<u>\$13,575,900,000</u>

Pacific proposes to participate in the Bell System Employee Stock Ownership Plan shown as Exhibit B attached to the application. The Plan is operated pursuant to provisions of the Internal Revenue Code of 1954, as amended, which provides that a corporation is entitled to an additional one percent investment tax credit if it contributes to an employee stock ownership plan an amount of its stock, the stock of an affiliated company, or cash, equal in value to the additional tax credit.

The American Telephone and Telegraph Company (AT&T) has established the Plan, in which its subsidiary companies, including Pacific, may elect to participate. The Plan is funded by the one percent additional tax credit as follows: The issuance and sale of a number of shares of Pacific's common stock to AT&T to produce proceeds not to exceed \$17,700,000, for which Pacific seeks approval in this application, will be in exchange for AT&T's transfer of an amount of its own stock of equivalent value to the Plan on behalf of Pacific.

AT&T will transfer its shares to the Plan in an amount equal to the total additional investment tax credit elected by the participating companies, including Pacific, for tax year 1979. These shares will be allocated to qualified employees of all participating companies, including Pacific, based on their compensation.

The value of the shares on which the transactions are based shall be the price of each company's stock, computed by averaging the closing price on the New York Stock Exchange for the twenty days immediately preceding the due date for filing the federal income tax return. This due date is September 15, 1980 for tax year 1979. Based upon recent market prices of Pacific's stock of approximately \$13 per share, it is estimated that Pacific would issue, in 1980, 1,361,538 of its shares to AT&T. This is based on an estimated tax credit and gross proceeds from the stock sale not to exceed \$17,700,000 for Pacific.

Pacific proposes to use the proceeds each year to reimburse its treasury for expenditures against which securities have not been issued. 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><u>\$ 3,104,730,531</u></u>

Pacific expects to apply the proceeds of the issue toward reimbursement of its treasury as previously mentioned. When the treasury has been reimbursed, Pacific intends to apply an equivalent amount to repayment of its then outstanding short-term borrowings.

Pacific's capital ratios as of June 30, 1980, and adjusted as of October 31, 1980, to give effect to (a) the proposed issuance of a number of shares of common stock to produce proceeds not to exceed \$17,700,000 as proposed herein on or about September 15, 1980; (b) the sale of \$150,000,000 of forty-year 12.35% Debentures due July 15, 2020 and of \$150,000,000 of ten-year 11.35% Notes due July 15, 1990 in July 1980;^{1/} (c) the issuance of 600,000 non-voting preferred shares in July 1980 amounting to \$15,000,000;^{2/} (d) the retirement of \$90,000,000 principal amount of debenture due August 1, 1980; (e) the proposed sale of \$300,000,000 aggregate principal amount of debt securities on or about October 28, 1980^{3/} are as follows:

<u>Item</u>	<u>June 30, 1980 Recorded</u>	<u>October 31, 1980 Pro Forma</u>
Common Equity	36.9%	35.2%
Preferred Stock	6.0	5.8
Funded Debt	51.7	53.7
Short-Term Debt	<u>5.4</u>	<u>5.3</u>
Total	<u>100.0%</u>	<u>100.0%</u>

^{1/} Decision No. 91845, dated June 3, 1980, in Application No. 59618.

^{2/} Decision No. 91380, dated May 4, 1980, in Application No. 59354.

^{3/} Decision No. 92190, dated September 3, 1980, in Application No. 59839.

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>	<u>1980</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><u>\$2,517,000,000</u></u>

The Revenue Requirements Division has reviewed Pacific's 1980 construction program and concludes that the estimated construction expenditures are reasonable. The staff has no objection to the proposed security issue specified in the application. The Division reserves the right, however, to reconsider the reasonableness of any construction expenditure in future rate proceedings.

Findings of Fact

1. Pacific 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 issuance 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. 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 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, on or after the effective date hereof, may issue and sell a number of its common stock to produce proceeds not to exceed \$17,700,000 to the American Telephone and Telegraph Company pursuant to the Bell System Employee Stock Ownership Plan.
2. The Pacific Telephone and Telegraph Company shall apply the net proceeds, from the sale of its common stock herein authorized, to the purposes set forth in the application.
3. Within thirty days after issuing and selling the stock herein authorized, The Pacific Telephone and Telegraph Company shall file with the Commission a statement showing the number of shares of common stock issued and sold under the Bell System Employee Stock Ownership Plan, the gross proceeds received, and the expenses incurred by the utility in connection with the issue and sale of the stock. These filings shall be in lieu of reports required under General Order No. 24-B.

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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 \$14,850.

Dated SEP 16 1980, at San Francisco, California.

John E. Coyne
President
James L. Sturgeon
Richard W. Harrell
Charles J. DeFigue
Samuel J. ...
Commissioners

