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ORIGINAL

Decision No. 92449 DEC 2- 1980

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 23,144,821 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. 60068 (Filed November 7, 1980)

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific Telephone) requests authority to issue and sell up to 23,144,821 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.

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 November 7, 1980.

Pacific Telephone proposes to use the proceeds from such issuance and sale of common shares 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 \$3,345,915,534 as of September 30, 1980, as set forth in the following summary:

	<u>Amount</u>
Total Capital Expenditures, October 31, 1922 to September 30, 1980	\$15,785,579,845
Deduct Proceeds of:	
Stock Issues	\$3,308,384,148
Promissory Notes	685,709,000
Funded Debt	5,447,781,100
Other	<u>147,635,231</u>
Total Deductions	<u>9,589,509,479</u>
Balance Obtained From Other Sources	6,196,070,366
Less: Reserve for Depreciation	<u>2,850,154,832</u>
Unreimbursed Balance	<u><u>\$ 3,345,915,534</u></u>

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 September 30, 1980 and adjusted as of December 31, 1980 to give effect to (a) the sale of \$300,000,000<sup>1/</sup> aggregate principal amount of debt securities on October 28, 1980 and (b) the proposed sale of not to exceed 23,144,821 common shares assuming proceeds of approximately \$301,000,000 are as follows:

	<u>September 30, 1980</u> Recorded	<u>December 31, 1980</u> Pro Forma
Funded Debt	51.6%	53.1%
Short-Term Borrowings	6.4	3.1
Preferred Stock	5.9	5.8
Common Equity	<u>36.1</u>	<u>38.0</u>
	<u>100.0%</u>	<u>100.0%</u>

<sup>1/</sup> Authorized by Decision No. 92190, dated September 3, 1980 in Application No. 59839.

Pacific Telephone's Consolidated Balance Sheet as of September 30, 1980, 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	\$12,840,900,000
Current Assets	1,082,500,000
Deferred Charges	<u>244,900,000</u>
Total	\$14,168,300,000
 <u>Liabilities and Equity</u>	
Total Equity	\$ 4,496,600,000
Long and Intermediate Term Debt	5,522,000,000
Current Liabilities	3,144,000,000
Deferred Credits	<u>1,005,700,000</u>
Total	<u>\$14,168,300,000</u>

Pacific Telephone'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>Amount</u>
Customer Growth	\$1,436,000,000
Customer Movement	561,000,000
Plant Modernization	375,000,000
Plant Replacement	<u>145,000,000</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.

Pacific Telephone proposes that on or about December 22, 1980, it will mail to its voting preferred and common shareholders of record on December 16, 1980, warrants evidencing rights to subscribe for the additional common shares. Such rights would expire at the close of business on January 16, 1981. The subscription price would be equal to the closing price on the composite tape<sup>1/</sup> of Pacific Telephone's common shares 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 eight (8) common shares outstanding and seven (7) common shares for each eight (8) voting preferred shares outstanding. Therefore, the number of shares to be offered will be 23,144,821.

Pacific Telephone also proposes to offer for sale, as a Supplemental Purchase Privilege, any of the additional common shares 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 common shares pursuant to the Basic Purchase Privilege will also provide for the Supplemental Purchase Privilege.

#### 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.

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<sup>1/</sup> Includes the New York, Midwest, Pacific, Philadelphia, Boston and Cincinnati stock exchanges.

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 August 31, 1981, not to exceed 23,144,821 shares of its authorized but unissued common shares in accordance with the application.

2. The Pacific Telephone and Telegraph Company shall use the proceeds of the issuance and sale of not exceeding 23,144,821 common shares for the purposes stated in the application.

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 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 thirty 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.

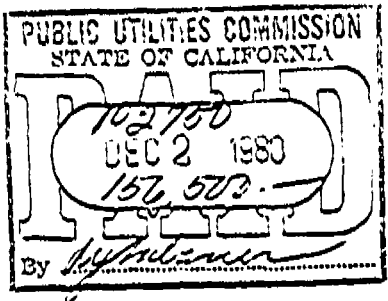
6. This order shall become effective upon payment by The Pacific Telephone and Telegraph Company of the fee mandated by Section 1904.1 of the Public Utilities Code, which fee, assuming maximum proceeds of \$301,000,000, is \$156,500.

Dated DEC 2 - 1980, at San Francisco, California.

John E. Bryan  
President

Richard D. Gould

Edward W. Smith  
Commissioners



Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Claire T. Dodrick, being necessarily absent, did not participate in the disposition of this proceeding.