

Decision 93430 AUG 18 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE PACIFIC TELE-)
 PHONE AND TELEGRAPH COMPANY for an)
 Order authorizing the issuance of)
 a number of its common shares to)
 produce proceeds not to exceed)
 \$19,100,000 on or about September)
 15, 1981 to fund participation in)
 the Bell System Employee Stock)
 Ownership Plan for tax year 1980.)

Application 60760
(Filed July 24, 1981)

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific) requests authority, under Public Utilities (PU) Code Sections 816 through 818 to issue and sell a number of its common shares to produce gross proceeds up to \$19,100,000 on or about September 15, 1981 in connection with its participation in the Bell System Employee Stock Ownership Plan (the Plan) in 1981 for tax year 1980.

Notice of the filing of the application appeared on the Commission's Daily Calendar of July 28, 1981. No protests have been received.

Pacific, a California corporation, is sole owner of Bell Telephone Company of Nevada and a subsidiary of the American Telephone and Telegraph Company (AT&T) which owns 91% 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 comprised of local and long-distance telephone lines and exchanges, buildings, rights-of-way, franchises, and equipment.

During calendar year 1980, Pacific reported total operating revenues of \$5,782,300,000 and net income of \$365,700,000. For the first six months of 1981 for the period ending June 30, 1981, Pacific reports it generated total operating revenues of \$3,159,400,000 and net income of \$153,200,000.

Pacific's Balance Sheet as of June 30, 1981, shown as part of Exhibit A attached to the application, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Telephone Plant	\$14,223,700,000
Current Assets	1,053,800,000
Deferred Charges	<u>214,900,000</u>
Total	\$15,492,400,000
 <u>Liabilities and Common Equity</u>	
Common Equity	\$ 4,176,600,000
Preferred Stock	635,000,000
Long- and Intermediate-Term Debt	6,021,400,000
Current Liabilities	3,439,400,000
Deferred Credits	<u>1,220,000,000</u>
Total	\$15,492,400,000

Pacific proposes to participate in the Plan shown as Exhibit B attached to the application. The Plan is operated under provisions of the Internal Revenue Code of 1954, as amended, which

provides that a corporation is entitled to an additional 1% 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.

AT&T has established the Plan in which its subsidiary companies, including Pacific, may elect to participate. The Plan is funded by the 1% 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 up to \$19,100,000, 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 1980. 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 20 days immediately preceding the date of issuance of the shares, which date is anticipated to be the due date for filing the

federal income tax return. This due date is September 15, 1981 for tax year 1980. Based upon recent market prices of Pacific's stock of approximately \$16 per share, it is estimated that Pacific would issue, in 1981, 1,193,750 of its shares to AT&T. This is based on an estimated tax credit and gross proceeds from the stock sale up to \$19,100,000 for Pacific. ✓

Pacific proposes to use the proceeds to reimburse its treasury for expenditures against which securities have not been issued. These expenditures amounted to a cumulative total of \$3,596,087,560 as of June 30, 1981 as set forth in Exhibit C attached to the application. ✓

Pacific expects to apply the proceeds from the issue and sale of its common stock under the Plan toward reimbursement of its treasury. When the treasury has been reimbursed, Pacific intends to apply an equivalent amount to repayment of its short-term borrowings outstanding at the time.

Pacific's capital ratios as of June 30, 1981 and adjusted as of June 30, 1981 to give effect to:

1. The proposed issuance of a number of shares of common stock under the Plan to produce gross proceeds up to \$19,100,000 on or about September 15, 1981; ✓

2. The expected receipt of \$86,750,000 on October 14, 1981 from the second takedown of the private placement of \$57,500,000 of 16% Term Notes, due June 20, 1986 and \$29,250,000 of 16.25% Term Notes, due June 20, 1996 (D.93052, dated May 19, 1981 in A.60450);
3. The proposed placement of up to \$200,000,000 aggregate principal amount of Term Notes beginning in August 1981 (D.93380, dated August 4, 1981 in A.60696); and
4. The proposed issuance and sale in 1981 of 26,000,000 shares of common stock at an assumed price estimated to produce net proceeds of \$416,000,000

are as follows:

	<u>June 30, 1981</u>	<u>Pro Forma</u>
Funded Debt	53.3%	52.2%
Short-Term Debt	5.3	4.6
Total Debt	<u>58.6</u>	<u>56.8</u>
Preferred Stock	5.5	5.2
Common Equity	35.9	38.0
Total	<u>100.0%</u>	<u>100.0%</u>

Pacific's estimates for the year 1981 indicate the need for \$2,834,000,000 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	\$1,671,000,000
Customer Movement	518,000,000
Plant Modernization	487,000,000
Plant Replacement	<u>158,000,000</u>
Total	\$2,834,000,000

The Revenue Requirements Division has reviewed Pacific's 1981 construction program and has concluded that the estimated construction expenditures are necessary. The Division has no objection to the proposed security issue specified in the application. The Division reserves the right to reconsider the reasonableness of any construction expenditure in future rate proceedings.

Findings of Fact

1. Pacific, a California corporation, operates 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 annual issuance and sale of common shares are just and reasonable and in the public interest.
5. The money, property, or labor to be procured or paid for by the proposed sale of common stock is reasonably required for the purposes specified in the application.
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.

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The number of shares outstanding, the total par (stated) value of the shares, and the dividends paid do not determine allowable return on plant investment. This authorization is not a finding of the value of the utility's stock or property, nor does it indicate the amounts to be included in ratesetting proceedings.

The following order should be effective on date of signature to enable Pacific to issue its common shares expeditiously.

O R D E R

IT IS ORDERED that:

1. The Pacific Telephone and Telegraph Company, on or after the effective date of this order, may issue and sell a number of its common stock to produce gross proceeds up to \$19,100,000 to the American Telephone and Telegraph Company under the Bell System Employee Stock Ownership Plan.

2. The Pacific Telephone and Telegraph Company shall apply the gross proceeds, from sale of its common stock, to the purposes set forth in the application.

3. Within 30 days after issuing and selling of the stock 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 Series 24-B.

Km ^{4.} ~~\$15,500~~ This order shall become effective upon payment of the \$15,500 fee set by PU Code Section 1904.1.

Dated AUG 18 1981, at San Francisco, California.

John E. Byrne
President
Richard D. Hooley
James W. ...
Victor ...
Prudencia ...
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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AUG 18 1981
\$15,500.00
By *J. ...*

\$ 15,500