

**ORIGINAL**Decision 93434 AUG 18 1981

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 26,000,000 of its)  
 authorized but unissued common )  
 shares by means of an offer for sub-)  
 scription and sale for cash to the )  
 holders of its voting preferred and )  
 common shares. )

Application 60791  
 (Filed August 7, 1981)

O P I N I O N

The Pacific Telephone and Telegraph Company (Pacific) requests authority, under Sections 816 through 818 of the Public Utilities (PU) Code, to issue and sell up to 26,000,000 shares of its authorized but unissued common shares by means of an offer for subscription and sale for cash to holders of its voting preferred and common shares.

Notice of the filing of the application appeared on the Commission's Daily Calendar of August 11, 1981. No protests have been received.

Pacific, a California corporation, is sole owner of Bell Telephone Company (Bell) of Nevada and a subsidiary of the American Telephone and Telegraph Company 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.

For calendar year 1980, Pacific reports total consolidated operating revenues of \$5,782,300,000 and net income of \$365,700,000. For the six months ended June 30, 1981, Pacific reports in its Consolidated Income Statement, shown as part of Exhibit A attached to the application, that 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	214,900,000
Total	<u>\$ 15,492,400,000</u>
 <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	1,220,000,000
Total	<u>\$ 15,492,400,000</u>

Pacific proposes to issue and sell up to 26,000,000 shares 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 proposes that on or about September 8, 1981, it will mail to its voting preferred and common shareholders of record on September 1, 1981 warrants evidencing rights to subscribe for the additional common shares.

These rights would expire at the close of business on September 30, 1981. The subscription price would be equal to the closing price on the composite tape of Pacific's common shares on the day on which the shares were traded on the exchanges preceding the day on which a Registration Statement relating to the shares, filed with the Securities and Exchange Commission, becomes effective.

Pacific proposes to make the offering to its voting preferred and common shareholders in a ratio to the number of voting preferred and common shares owned on September 1, 1981 by these shareholders (this ratio is to be determined at a time closer to the commencement of the offering period by Pacific's chairman of the board of directors, president, executive vice president-chief financial officer, or treasurer). The number of shares to be offered will not exceed 26,000,000.

Pacific 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 stated above. The warrants evidencing the right to subscribe for additional common shares under the Basic Purchase Privilege will also provide for the Supplemental Purchase Privilege.

Pacific proposes to use the proceeds from the issuance and sale of its common shares (a) to retire, at maturity, its 7-Year 9.0% Notes due October 15, 1981 and (b) to reimburse its

treasury for moneys actually expended for capital purposes from income and other treasury funds of Pacific and its subsidiary, Bell. 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 use \$150,000,000 of the proceeds to retire at maturity its outstanding 9.0% Notes due on October 15, 1981. In the interim period of about two weeks before the proceeds are used, Pacific will use an equivalent amount to repay short-term borrowings. Pacific expects to apply the remainder of the proceeds 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 that time which, including consideration of the Notes due October 15, 1981, are expected to be approximately \$850,000,000 by September 30, 1981.

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

1. The proposed issuance and sale of 26,000,000 shares of common stock at the assumed price of \$16 per share estimated to produce net proceeds of \$416,000,000;<sup>1/</sup>

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<sup>1/</sup> The price on the New York Stock Exchange at the close of business on August 7, 1981 was \$17-1/4 per share.

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 Note, due June 20, 1986 and \$29,250,000 of 16.25% Term Notes, due June 20, 1996 Decision (D.)93052, dated May 19, 1981 in Application (A.)60450);
3. The 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);
4. The proposed issuance and sale of a number of shares of common stock to produce gross proceeds up to \$19,100,000 on or about September 15, 1981 to fund participation in the Bell System Employee Stock Ownership Plan for tax year 1980. (D.93430, dated August 18, 1981 in A.60760); and
5. The retirement on October 15, 1981 of \$150,000,000 principal amount of 7-Year 9.0% Notes.

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	158,000,000
Total	<u>\$2,834,000,000</u>

The Commission's Revenue Requirements Division has reviewed Pacific's application and its 1981 construction program and has confirmed the necessity for these expenditures. The Division reserves the right to reconsider the reasonableness of any construction expenditures 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. Pacific 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 not adverse to the public interest.
5. The money, property, or labor to be procured or paid for by the issuance and sale of the common shares is reasonably required for the purposes specified.

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 the 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 may issue, sell, and deliver on or before December 31, 1981, up to 26,000,000 shares of its authorized but unissued common shares estimated to produce net proceeds of \$416,000,000 in accordance with the application.

2. The Pacific Telephone and Telegraph Company shall use the proceeds from the issuance and sale of 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 its common shares, 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.

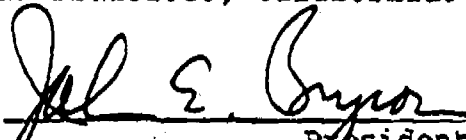
5. Within 30 days after selling the common shares to be issued and sold, The Pacific Telephone and Telegraph Company shall file with the Commission a letter reporting the number of common shares issued and sold and the use of the proceeds therefrom substantially in the format set forth in Appendix C of D.85287, dated December 30, 1975 in A.55214 and Case 9832.




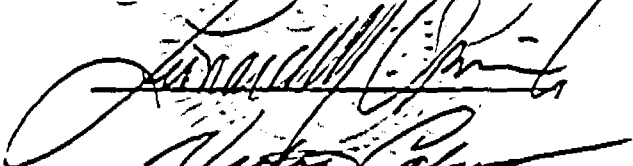
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6. This order shall become effective when The Pacific Telephone and Telegraph Company has paid the \$139,000 fee set by Section 1904.1 of the PU Code after taking credit for the retirement of \$150,000,000 principal amount of its 7-Year 9.0% Term Notes, due October 15, 1981.

Dated AUG 18 1981, at San Francisco, California.

  
President

  
Commissioner

  
Commissioner

  
Commissioners

