

CACD/RHG

Decision 96-03-014 March 13, 1996

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GTE California Incorpo-
rated U-1002-C, to issue and sell
up to \$300,000,000 of Debentures.)

Application 95-12-080
(Filed December 29, 1995)

O P I N I O N

Summary of Decision

This decision grants GTE California Incorporated (GTEC) the authority requested in Application 95-12-080 (Application).

GTEC requests authority, pursuant to §§ 816 et seq. and 851 of the Public Utilities (PU) Code, to issue, sell, and deliver up to \$300,000,000 in new debentures (Debentures) in one or more transactions on the open market by competitive and/or negotiated bid on or after the effective date of this order and on or before December 31, 1998.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of January 3, 1996. No protests have been received.

Background

GTEC, a California corporation, operates as a public utility telephone company under the jurisdiction of this Commission. GTEC owns and operates intraLATA (local access and transport area) telecommunications systems in portions of 20 counties, all in the State of California. Said systems consist mainly of telephone access lines and facilities for their interconnection, including underground and aerial cable and lines, central office equipment, land and buildings and miscellaneous equipment.

For the year-to-date September 30, 1995, GTEC reports it generated total operating revenues of \$1,964,833,000 and net income of \$254,510,000, as shown in Exhibit A, attached to the Application.

Also shown as part of Exhibit A is GTEC's Balance Sheet for the same period which is summarized below:

<u>Assets</u>	(Thousands of Dollars) <u>Amount</u>
Net Telephone Plant	\$4,673,106
Short-term Notes Receivable	1,789
Unamortized Debt Issuance Expense	51,204
Current Assets and Deferred Debits	<u>1,226,684</u>
 Total Assets	 \$5,952,783
 <u>Capitalization & Liabilities</u>	 <u>Amount</u>
Stockholders' Equity & Retained Earnings	\$2,540,452
Current Liabilities	678,341
Noncurrent Deferred Taxes and Unamortized Investment Tax Credit	720,388
Other Deferred Liabilities	698,691
Short-term Notes	44,097
Current Maturities of Long-term Debt	40,273
Long-Term Debt	<u>1,230,541</u>
 Total	 \$5,952,783

Description of Financing and Manner of Issuance

GTEC seeks Commission authority to issue, sell, and deliver \$300,000,000 of Debentures by competitive and/or negotiated bid depending on which process is most favorable at the time of issuance. The Debentures will have maturities of up to forty years and the coupon is projected to be in the range of 6.5% to 7.5% depending on the length of maturity. GTEC states in the Application that it has remaining authority to issue \$100,000,000 of Debentures pursuant to Decision (D.) 94-03-032, dated March 9, 1994.

Exemption from the Competitive Bidding Rule

In Resolution F-616, the Commission stated that it would entertain requests for exemptions from the Competitive Bidding Rule

for debt issues in excess of \$200,000,000 and would grant such exemptions upon a compelling showing by a utility that, because of the size of an issue, such an exemption is warranted.

GTEC states in the Application that compelling circumstances exist for an exemption for issues in excess of \$200,000,000 principal amount and that such an exemption would provide GTEC the flexibility to meet its financing requirements on the most favorable terms available. GTEC cited the following reasons:

1. Due to the large size of GTEC's offering, competitive bidders may build a safety margin into their competitive bids to reduce their resale risk. This increases the cost to GTEC of issuing the Debentures. With a negotiated offering, the institutions have already pre-marketed the debt and do not have to build a safety margin.
2. In order to adjust to rapidly changing market conditions, GTEC may desire the greater flexibility associated with a negotiated offering to adjust its timing and terms.
3. GTEC may enter into a hedging arrangement to "lock-in" the interest rate benefits of calling its \$75,000,000 of high-cost long-term debt.

The Commission Advisory and Compliance Division (CACD) advises us that GTEC's request and reasons for an exemption from the Competitive Bidding Rule raise no questions that should dissuade us from giving favorable consideration to the matter. We will accept CACD's recommendations.

We place GTEC on notice that consistent with the Competitive Bidding Rule, GTEC should effect its domestic underwritten public offerings of fixed interest rate Debentures in the principal amount of \$200,000,000 or less by means of competitive Bidding.

We will also require that GTEC, within thirty days of request, provide CACD with a showing (if it enters into a hedging arrangement) why GTEC believes that the resulting interest

rate and cost of money were advantageous to GTEC and its ratepayers.

Capital Ratios

GTEC's capital ratios at September 30, 1995, shown as part of Exhibit A to the Application, are presented below as recorded and as adjusted to give pro forma effect to the issuance of the proposed \$300,000,000 Debentures and the remaining authority of \$100,000,000 under D.94-03-032:

	(Thousands of Dollars)		Pro Forma	
	Recorded Amount	Percentage	Amount	Percentage
Debt:				
First Mortgage Bonds	\$ 475,000	12.49%	\$ 400,000	9.80%
Debentures	800,000	21.04%	1,200,000	29.39%
Capital Leases	1,206	0.03%	1,206	0.03%
Unamortized Premium/ Discount	(5,392)	-0.14%	(5,063)	-0.12%
Unamortized Debt Issuance Expense	(51,204)	-1.35%	(53,933)	-1.32%
Net Short-term debt	42,308	1.11%	0	0.00%
Subtotal	\$1,261,918	33.18%	\$1,542,210	37.78%
Preferred Stock	81,866	2.16%	81,866	2.00%
Common Equity	2,458,586	64.66%	2,458,586	60.22%
Total Capitalization	\$3,802,370	100.00%	\$4,082,662	100.00%

Under our New Regulatory Framework for local exchange companies, capital structure is not a factor in setting rates. We make no finding in this decision of the reasonableness of GTEC's projected capital ratios.

Cash Requirements Forecast

GTEC's projected Cash Flow Statement for the years 1995 through 1997, includes among others, cash flows from financing activities of \$400,000,000 long-term debt issued, \$175,000,000 long-term debt retired, and \$75,000,000 refund of high-cost long-term debt, shown as part of Exhibit A to the Application. The cash

flow summary is as follows:

	(Thousands of Dollars)		
	1995	1996	1997
Cash Flow from Operating Activities	\$765,591	\$886,796	\$901,198
Less:			
Cash Used for Investing	453,110	520,652	526,365
Cash Flow from Financing	<u>331,304</u>	<u>366,144</u>	<u>374,833</u>
Increase/(Decrease) in Cash	\$(18,823)	0	0

Use of Proceeds

The \$300,000,000 amount of Debentures will be used by GTEC for the purpose of refunding \$185,000,000 short-term obligations¹ and the replacement of an estimated \$115,000,000 of first mortgage bonds that will be redeemed prior to maturity as shown in Exhibit A to the Application. GTEC's Cash Flow Statement indicates that an estimated \$105,034,000 of short-term debt will be liquidated in 1996 and \$104,397,000 in 1997.

PU Code § 823(d) provides:

No note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the commission.

¹ As shown in GTEC's supplemental data, \$185,000,000 total amount of long-term debt was retired and financed by short-term debt from June 1, 1994 to December 15, 1995.

Accordingly, we will approve GTEC's refunding of short-term debt by proceeds from the issue of the Debentures. GTEC is placed on notice that the proceeds from this financing transaction cannot be charged to operating expenses or income.

PU Code § 1904(b) states that no fee need be paid on such portion of any such issue as may be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has been paid to the Commission.

We will grant GTEC credit for \$115,000,000 representing the amount to be used to refund forthcoming maturities of first mortgage bonds for which a fee has previously been paid.

Findings of Fact

1. GTEC, a California corporation, is a telephone utility subject to the jurisdiction of this Commission.

2. GTEC has need for external funds for the purposes set forth in the Application.

3. The proposed issuance and sale of Debentures is for proper purposes.

4. The money, property, or labor to be procured or paid for by the proposed debt issue is reasonably required for the purposes specified in the Application.

5. Res. F-616 states that the Commission may entertain requests for exemption from the Competitive Bidding Rule for debt issues in excess of \$200,000,000 and may grant such exemptions upon a compelling showing by a utility that, because of the size of an issue, an exemption is warranted.

6. PU Code § 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall be refunded, in whole or in part, by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

7. The Commission does not by this decision determine that the capital structure presented herein is necessary or reasonable for ratemaking purposes.

8. There is no known opposition to this Application, and the authority requested should be granted.

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.

3. The proposed issue of Debentures is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. Proceeds from the debt issue may not be charged to operating expense or income.

4. GTEC should be granted exemption from the Competitive Bidding Rule to have greater flexibility and timing, and in consideration of possible cost savings.

5. GTEC will pay the fee in accordance with PU Code § 1904(b). The fee computation will take into account the allowed fee exemption as a result of the refunding of prior indebtedness for which a fee has previously been paid.

ORDER

IT IS ORDERED that:

1. GTE California Incorporated (GTEC), on or after the effective date of this order is authorized to issue, sell and deliver Debentures in an aggregate principal amount not to exceed \$300,000,000 in accordance with the terms and conditions set forth or contemplated in Application (A.) 95-12-080 (Application).

2. GTEC shall apply the proceeds from the sale of the Debentures for the purposes set forth in the Application and the supplemental data to the Application.

3. GTEC's proposed issue of Debentures in principal amount in excess of \$200,000,000 is exempted from the requirements of the Commission's Competitive Bidding Rule.

4. Of the \$300,000,000 authorized amount of Debentures, \$115,000,000 shall be used for no other purpose than for retiring or refunding securities previously issued and upon which GTEC has paid the fees prescribed by Public Utilities (PU) Code § 1904.

5. GTEC shall maintain, and within thirty days from request, provide the Commission Advisory and Compliance Division a copy of the final form of the Debentures and related documents; the price, interest rate and terms; and a report (on any hedging arrangement) showing why the resulting interest rate and cost of money were the most advantageous to GTEC and its ratepayers.

6. On or before the 25th day of each month, GTEC shall file the reports required by General Order Series 24.

7. The Application is granted as set forth above.

A.95-12-080 CACD/RHG

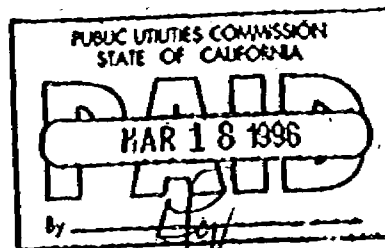
8. The authority granted by this order shall become effective when GTEC pays \$98,500, the fee set forth by PU Code § 1904(b).

A.95-12-080 is closed.

This order is effective today.

Dated March 13, 1996, at San Francisco, California.

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners



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