

Decision 97-02-007 February 5, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC BELL U-1001-C,)
 to issue debt securities and preferred)
 stock and to guarantee the obligations)
 of others for the benefit of Pacific)
 Bell, the total aggregate principal)
 amount of indebtedness and guarantees)
 not to exceed \$1 billion; to execute)
 and deliver one or more indentures; to)
 to sell, lease, assign or otherwise)
 dispose of or encumber utility property)
 in connection with the issuance of)
 securities; to extend the time period)
 and the terms and conditions of Deci-)
 sion No. 93-09-062 authorizing the)
 issuance of up to \$1.8 billion of de-)
 bentures and notes; to enter into)
 interest rate swaps and similar)
 arrangements; and for an exemption from)
 the Commission's Competitive Bidding)
 Rule.)

ORIGINAL

Application 96-11-038
(Filed November 25, 1996)

Application of PACIFIC BELL U-1001-C,)
 to issue and sell Debt Securities in an)
 amount not to exceed \$1.8 billion; to)
 execute and deliver one or more inden-)
 tures; to enter into certain financing)
 contracts; an exemption from the Compe-)
 titive Bidding Rule; to provide an)
 "Evergreen Provision" for redemptions)
 and retirements of Debt Securities; and)
 in lieu of G.O. 24-B requirements, the)
 filing of certain reports.)

Application 93-07-022
(Filed July 13, 1993)

O P I N I O N

Summary of Decision

This decision grants Pacific Bell (Pacific) the authority requested in Application (A.) 96-11-038 (Application).

Pacific requests authority under Public Utilities (PU) Code §§ 816 through 830 for the following:

1. to issue bonds, notes, debentures, secure loans, capitalized leases and other types of debt securities, and preferred stock (collectively Securities) and to guarantee unconditionally or otherwise secure the obligations of other parties in connection with the issuance of Securities or for other purposes for the benefit of Pacific, said Securities to include, at Pacific's discretion, one or more of the features described in the Application, all such issues of Securities to take place at any time from the date of the authorization until the total aggregate principal amount authorized has been fully utilized;
2. to arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing the Securities and to modify such credit facilities in the manner set forth in the Application without further authorization from the Commission;
3. to execute and deliver indentures or supplemental indentures to sell, lease, assign, or otherwise dispose of or encumber utility property in connection with the issuance of Securities;
4. to state that the total aggregate principal amount (or net proceeds in the case of discount, zero coupon or similar securities) of Securities issued and guarantees made pursuant to the Application shall not exceed \$1 billion, and the proceeds therefrom shall be applied for the purposes referred to in the Application;
5. to provide that Pacific may utilize and enter into interest rate swaps, caps, floors, collars and similar arrangements, such authorization to be in addition to and independent of the requested authorization for the issuance of Pacific's Securities and not counted against the maximum dollar amount authorized;
6. to grant Pacific's request for an unlimited extension of the time period for the issuance of up to \$1.8 billion of debentures and notes as authorized in Decision (D.) No. 93-09-062, in A.93-07-022, until the amount authorized is fully issued and to expand the permitted terms and conditions as described in the Application;
7. to obtain an exemption from the Commission's Competitive Bidding Rule with respect to medium-term notes; commercial paper; commercial bank borrowings; swaps, caps, floors, collars, swaptions, and similar arrangements; loans;

capitalized leases; variable rate debt; overseas indebtedness; foreign securities; structured transactions; negotiated transactions; and issues in excess of \$200,000,000;

8. to be able to use the bidding procedures described on page 11 of the Application.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of November 27, 1996. No protests have been received.

Background

Pacific, a California corporation, operates as a public utility subject to the jurisdiction of this Commission. Pacific owns and operates a general communications system composed of local and long-distance telephone lines and exchanges, buildings, rights-of-way, franchises and equipment.

For the 6 months ended June 30, 1996, Pacific reported it generated total operating revenues of \$4,635,000,000 and net income of \$594,000,000, as indicated in its unaudited Condensed Consolidated Statements of Income shown as part of Exhibit A to the Application.

Also shown as part of Exhibit A is Pacific's Condensed Consolidated Balance Sheet as of June 30, 1996, summarized as follows:

| | |
|---|-------------------------|
| Current Assets | \$ 2,438,000,000 |
| Property, Plant & Equipment | 11,209,000,000 |
| Other Noncurrent Assets | <u>467,000,000</u> |
| Total Assets | \$14,114,000,000 |
| Current Liabilities | \$ 3,079,000,000 |
| Long-Term Obligations | 5,020,000,000 |
| Deferred Income Taxes | 383,000,000 |
| Other Noncurrent Liabilities & Deferred Credits | 2,277,000,000 |
| Shareholders' Equity | <u>3,355,000,000</u> |
| Total Liabilities and Shareholders' Equity | \$14,114,000,000 |

Description of Debt Securities

Pacific seeks authority to issue Securities and guarantees not to exceed the aggregate principal amount of \$1 billion.

Pacific proposes to issue any of the following Debt Securities which are described in detail on pages 3 to 6 of the Application:

1. Bonds, Notes and Debentures
2. Medium Term Notes
3. Loans
4. Capitalized Leases¹
5. Preferred Stock
6. Tax-Advantaged Preferred Securities²
7. Guarantees
8. Other Types of Securities³

Pacific states that Securities may have maturities of more than 12 months; bear interest at fixed, variable or zero coupon rates; and be issued at par or with an original issue discount or premium. Securities may be offered to the public and

1 Capitalized leases are leases that convey to the lessee substantially all of the attributes of ownership. Such leases usually have terms that cover most (if not all) of the economic life of the leased assets and are treated as debt financing for accounting and tax purposes. Capitalized leases may also be "leveraged" if the lessor utilized a large proportion of debt in financing its purchase of the leased assets, and "cross border" if the lessor and lessee are located in different countries. In the latter case, economic benefits may be achievable by taking advantage of differences in the tax treatment of the leased assets between tax jurisdictions.

2 Known by acronyms such as "MIPS" (monthly income preferred securities") and "TOPrS" (trust originated preferred securities"), these securities have several of the key characteristics of preferred stock but are treated as debt for U.S. tax purposes. As such, they provide a measure of additional equity to the capital structure of the issuer but at a debt-like, tax-deductible cost.

3 Include, without limitation, overseas indebtedness, foreign securities and foreign loans.

registered with the Securities and Exchange Commission, or privately placed and unregistered. Typically, Securities will be issued under an indenture (or a supplement to an existing indenture) that sets forth the detailed terms and conditions of the particular issue.

Securities may contain a call option allowing them to be redeemed prior to maturity. This feature will provide Pacific the ability to refinance debt when lower interest rates make it attractive to do so. Securities may also contain a put option. A put option will provide the holder of the securities with protection against rising interest rates. Securities may also incorporate a sinking fund (that will provide for the early retirement or amortization of securities) or warrants (which will allow the holder to purchase additional securities at pre-established terms). Finally, in order to take advantage of market opportunities, Securities may be issued in foreign currencies and then swapped into US dollars.

Under a MIPS financing arrangement, a form of preferred security is issued and sold privately or publicly through either a limited liability company, a limited partnership or a business trust (special purpose entity). The special purpose entity would be a subsidiary or other affiliate of a utility and would issue securities and commit the proceeds from the issuance to a utility. Such loan arrangement would be evidenced by deferrable interest subordinated debentures to be issued by a utility.

PU Code § 701.5 provides, among other things, that no telephone corporation whose rates are set by the Commission on a cost-of-service basis shall issue any bond, note, lien, guarantee or indebtedness of any kind pledging the utility assets or credit for or on behalf of any subsidiary or affiliate, or corporation holding a controlling interest in it. The Commission may, however, authorize these actions on behalf of a subsidiary or affiliate if the subsidiary or affiliate engages in regulated activities which support the utility in its operations or service, and the Commission finds that the proposed financing will benefit the interests of the utility and its ratepayers.

This Commission has granted authorization under PU Code § 701.5 for MIPS and TOPRS to, among others, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company.

Under our New Regulatory Framework, Pacific's overall revenue requirement is no longer based on cost of service, but cost of service is still a consideration in establishing rates for its services. Also under NRF, it is still possible for Pacific's costs to affect rates to the extent that Pacific's earned rate of return triggers sharing adjustments, although the sharing mechanism is currently suspended per our D.95-12-052. Ratepayers thus continue to have at least a potential interest in Pacific's minimizing its tax liability, including through such mechanisms as it proposes to employ here.

Pursuant to PU Code § 701.5(c), we will approve Pacific's request to guarantee or otherwise secure, through one or more agreements to such effect, deferrable interest securities issued by one or more special purpose entities.

Pacific's special purpose entity should be created solely for the purpose of issuing securities to the public to support Pacific's operations or service. Pacific shall have 100% ownership and control of the special purpose entity. In addition, the activities of the special purpose entity will be subject to federal or state securities regulation and to the regulation of this Commission through its oversight of Pacific's financing activities.

To the extent that there may be an impact on future rates, we will limit ratepayers' responsibility for expenses that may arise from interest on taxes that may be assessed by the Internal Revenue Service (IRS) if expected tax advantages do not materialize (back taxes), as well as any penalties or interest on penalties. Ratepayers will be responsible for (1) back taxes, to the extent that benefits of reduced taxes were flowed through to them, and (2) interest on ratepayer-recovered back taxes, calculated at no more than the rate earned on prime, three-month commercial paper, as reported in the Federal Reserve Statistical Release, G-13.

The Commission reserves the right to make a full assessment of deferrable interest securities at a future date.

Interest Rate Caps, Collars, and Swaps

Pacific requests authority to enter into interest rate swaps with selected counterparties to convert fixed interest rates to variable and vice versa. This may be done as a requirement of a particular financing structure, to hedge the future issuance of Securities, or to adjust Pacific's mix of fixed and variable rate debt.

The following arrangements, which are described in detail on pages 7 to 8 of the Application, will be used as appropriate by Pacific to hedge the future issuance of Securities, or to adjust Pacific's mix of fixed and variable rate debt.

1. Cap or Ceiling Rate and Floor
2. Collar
3. Treasury Rate Lock⁴ and Swap Options

Pacific requests that the authorization to enter into the above arrangements be in addition to, and independent of, the maximum dollar amount and authorization requested for the issuance of Securities. Pacific also requests the flexibility to enter into hedging and liability management arrangements not specifically described in the Application.

Pacific proposes that the aggregate amount of interest rate swaps, caps, floors and similar arrangements not exceed 20% of Pacific's total debt, preferred stock and preferred securities then outstanding.

⁴ Treasury securities sold on a forward basis in order to lock-in current interest rates or to cap interest rate exposure.

For purposes of this Application, Pacific will be subject to the following conditions in relation to rate payment exchange arrangements:

1. The aggregate amount of Pacific's new and outstanding interest rate swaps, caps, floors and similar arrangements must not exceed 20% of Pacific's total debt, preferred stock and preferred securities.
2. Rate payment exchange transactions carrying potential counterparty risk must have counterparties with credit ratings equal to or better than Pacific.
3. Pacific must maintain and make available within 30 days of a request by the Telecommunications Division a report analyzing rate payment exchange contracts including all costs associated with the transaction in comparison to a projection of all-in cost without a rate payment exchange.
4. Pacific must maintain and make available within 30 days of a request by Telecommunications Division a complete copy of the executed agreement and all associated documentation.
5. Pacific must separately report all interest income and expenses arising from all rate payment exchange transactions in all monthly and annual reports to the Commission.

Exemption from the Competitive Bidding Rule

Exhibit A to Commission Resolution No. F-616, dated October 1, 1986, states, "Securities privately placed with specific lenders and bank term loans obviously must be negotiated. Competitive Bidding is not presently available in European or Japanese markets. Certain tax-exempt pollution control bonds have terms which are specifically negotiated. Variable interest rate debt securities are normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule." Moreover, notes and variable rate debt securities are sold through a placement agent on a

reasonable efforts basis in a manner analogous to that used for issuing commercial paper. Also, structured transactions (swap contracts entered into in conjunction with the issuance of securities) are specifically negotiated since the interest rate paid on the swap and the security must be established simultaneously. Pacific also states in the Application that exemption for issues in excess of \$200,000,000 principal amount would provide the utility flexibility to meet its financing requirements on the most favorable terms available.

Pacific believes that the actual structure of the securities that may be issued cannot be known in advance and company and market conditions are constantly subject to change. Timing is also a critical factor as financing and market opportunities may be short-lived.

Therefore, Pacific requests an exemption from the Competitive Bidding Rule with respect to medium-term notes; commercial paper; commercial bank borrowings; swaps, caps, floors, collars, swap options, and similar arrangements; loans; capitalized leases; variable rate debt; overseas indebtedness; foreign securities; structured transactions; negotiated transactions; and issues in excess of \$200,000,000.

Pacific's request and reasons for exemptions from the Competitive Bidding rule raise no questions that should dissuade us from giving favorable consideration to the matter. Pacific's request and reasons for exemption are within the purview of the modified and prevailing conditions of enforcement and exemptions defined in Res. F-616. We will authorize the exemption.

In addition, to provide added flexibility to take advantage of market opportunities, we will authorize Pacific's request for authority to deviate from the Commission's Competitive Bidding Rule by allowing it to use the following procedures:

1. Contact, by telephone or otherwise, a selected group of prospective bidders to invite the submission of bids for the purchase of the Securities at such time and place as may be specified by Pacific. Pacific will endeavor to issue such invitation at least one day prior to the deadline for the submission of bids; however, if market conditions warrant, the time interval may be reduced to a few hours.
2. Determine not to publish a public invitation for bids or take any action to notify any other prospective bidders, although Pacific will respond to requests for information and permit others to submit bids at Pacific's discretion.
3. Allow bids to be submitted to Pacific by telephone or otherwise.
4. Require that no bidder be allowed to participate in more than one bid.
5. Require that it receive at least three separate bids before any bid will be accepted.
6. Reserve the right to reject all bids.

Pacific states in the Application that if any bid is accepted, Pacific will accept the bid which, in its sole determination, will result in the lowest annual cost over the life of the Securities.

Construction Budget

Pacific's (including subsidiaries') estimated capital expenditures for 1997 through 1999, as shown in its supplemental data to the Application, are as follows:

| <u>Components</u> | <u>(\$Millions)</u> | | | <u>Total</u> |
|------------------------------|---------------------|-------------|-------------|--------------|
| | <u>1997</u> | <u>1998</u> | <u>1999</u> | |
| Growth & Market Driven | 1529 | 1416 | 1430 | 4375 |
| Government Mandated | 91 | 92 | 84 | 267 |
| Network Efficiency | 398 | 893 | 368 | 1659 |
| Rehabilitation & Replacement | 111 | 113 | 103 | 327 |
| Other | <u>105</u> | <u>140</u> | <u>80</u> | <u>325</u> |
| Sub-Total | 2234 | 2654 | 2065 | 6953 |
| Less: Pac Bell Mobile Svcs. | <u>(189)</u> | <u>(91)</u> | <u>(79)</u> | <u>(359)</u> |
| Total | 2045 | 2563 | 1986 | 6594 |

Pacific Bell Mobile Services was granted an exemption from PU Code §§ 816-830 and 851-856 by D.95-10-032, dated October 18, 1995.

Capital Ratios

Pacific's capital ratios as of June 30, 1996, are shown below as recorded and as adjusted to give proforma effect to the transactions that follow:

| | <u>Actual</u> | | <u>Proforma</u> | |
|---------------|---------------|------------|-----------------|------------|
| Debt | 5590 | 62% | 7351 | 65% |
| Common Equity | <u>3355</u> | <u>38%</u> | <u>4035</u> | <u>35%</u> |
| Total | 8945 | 100% | 11386 | 100% |

1. Debt includes issuance of securities requested in the Application and the unused amount of \$750 million from D.93-09-062.
2. Common Equity includes estimated retained earnings for 1997 to 1999 and additional paid-in capital.

Consistent with the Commission's treatment of cost of capital for large and mid-sized telecommunications companies, we make no finding in this decision of the reasonableness of Pacific's projected capital ratios.

Cash Requirements Forecast

| <u>Components</u> | <u>(\$Millions)</u> | | | <u>Total</u> |
|---|---------------------|-------------|-------------|--------------|
| | <u>1997</u> | <u>1998</u> | <u>1999</u> | |
| Capital Expenditures | 2045 | 2563 | 1986 | 6594 |
| Other Investments | (12) | (13) | (14) | (39) |
| Maturing Long-Term Debt: | | | | |
| 4 5/8%'s due 4/1/99 | | | 100 | 100 |
| 4 5/8%'s due 5/1/00 | | | 125 | 125 |
| Callable Long-Term Debt: | | | | |
| 6%'s due 11/1/02 | | | 130 | 130 |
| 6 1/2%'s due 7/1/03 | | | 165 | 165 |
| 7 1/4%'s due 2/1/08 | | | 175 | 175 |
| Dividends Paid | 1206 | 1266 | 1248 | 3720 |
| Beginning Short-Term Debt Balance | 458 | | | 458 |
| Less: Cash from Operating Activities | (2995) | (3080) | (3239) | (9314) |
| Total External Financing Requirements | 702 | 736 | 676 | 2114 |

Pacific's estimated cash requirements indicate that it would require additional funds from external financing sources amounting to \$2,114,000,000 for 1997 through 1999.

Extension of Previous Authorization

D.93-09-062 dated September 17, 1993, granted Pacific authority to issue debentures and notes in an aggregate amount not to exceed \$1.8 billion or before December 31, 1996. Pacific states in the Application that of that amount, \$750 million remains unused.

Accordingly, Pacific requests an unlimited extension of the time period allowed for the issuance of the remainder of such debentures and notes until the total amount authorized has been fully utilized. In addition, Pacific requests that D.93-09-062 be

expanded to include the same use of proceeds and types of Securities and guarantees for which authorization is sought by A.96-11-038.

Pacific's request raises no questions that should dissuade us from giving favorable consideration to the matter. We will grant the proposed extension of time and the expanded use of proceeds.

Because of the filing date of the Application and the time allowed for responses under Rule 47(f) of the Rules of Practice and Procedure, it was not possible for the Commission to issue an order prior to December 31, 1996, the expiration date of the authority granted in D.93-09-062. Therefore, our action on this particular matter will be effective as of December 31, 1996, nunc pro tunc. Pacific is directed to make future similar filings early enough to allow us to act before its financing authority has lapsed.

Use of Proceeds

The proceeds from the issuance of Securities will be used for all lawful purposes, including, but not limited to, the acquisition of property; the construction, completion, extension or improvement of facilities; the refinancing, discharge, refunding or defeasing (i.e., advance refunding or extinguishment) of obligations, including short-term borrowings; and other general corporate purposes. Pacific requests authorization to refund short-term debt using the proceeds of any issue of Securities under the Application.

PU Code § 818 states:

No public utility may issue stocks and stock certificates, or other evidences of indebtedness payable at periods of more than 12 months after the date thereof unless, in addition to the other requirements of law it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied, and that, in the opinion of the commission, the money, property or labor to be procured or paid for by the issue is reasonably required for the purposes specified in the order, and that, except as otherwise permitted in the order in the case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

In relevant part, 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, 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.

We have reviewed Pacific's proposed use of proceeds and have determined that it is for proper purposes and is not adverse to the public interest. In accordance with PU Code § 818 and § 823(d), we will approve Pacific's intended use of proceeds (including repayment of short-term debt) from the proposed issue and sale of Securities.

Pacific is placed on notice by this decision that the proceeds from the financing transaction cannot be charged to operating expenses or income. We will also remind Pacific to comply with the provisions of PU Code § 817 for use of proceeds for general corporate purposes.

Findings of Fact

1. Pacific needs external funds for the purposes set forth in the Application.
2. The proceeds from the proposed issue of Securities will be used for proper purposes and such use is not adverse to the public interest.
3. The money, property, or labor to be procured or paid for by the proposed issuance of Securities is reasonably required for the purposes specified in the Application.
4. Authorizing Pacific to determine the amount, timing, terms and conditions, and method of offering its proposed Securities would not be adverse to the public interest.
5. The use of interest rate caps, collars and swaps in appropriate circumstances is not adverse to the public interest.
6. Limiting Pacific's swap and other derivative financial instruments issued in connection with Securities to those involving counterparties having credit ratings equal to or better than Pacific's will keep counterparty risk within acceptable bounds.
7. Pacific's swap and other derivative financial transactions should not exceed 20% of Pacific's total debt, preferred stock and preferred securities then outstanding.
8. The special purpose entity Pacific proposes would be under Pacific's ownership and control and would engage only in activities in support of Pacific's regulated operations.
9. Pacific's proposal to enter into MIPS transactions with a special purpose entity and to unconditionally guarantee or otherwise secure the entity's payment obligations would be for proper purposes and will benefit the interests of Pacific and its ratepayers.
10. For MIPS transactions, ratepayers should not be responsible for penalties or interest on penalties, if any. Ratepayers may be responsible for any back taxes to the extent that benefits of reduced taxes were previously flowed through to them. Ratepayers may also be responsible for interest on rate-payer recovered back taxes, calculated at the prime, three-month commercial paper rate, as reported in the Federal Reserve Statistical Release, G-13.

11. Granting Pacific's request for exemption from the Competitive Bidding Rule with respect to obtaining loans, issuing Securities or otherwise guaranteeing or securing obligations of others with respect to the issuance of certain tax-exempt debt and tax-advantaged preferred securities, issuing variable rate debt securities, overseas indebtedness, foreign securities, notes, and entering into structured transactions, negotiated transactions, and issues in excess of \$200,000,000 would not be adverse to the public interest.

12. The proposed unlimited extension of time during which Pacific may issue and sell debentures and notes as authorized by D.93-09-062; the expanded use of proceeds; and issue of securities and guarantees similar to that sought by the Application, would be for proper purposes and would not be adverse to the public interest.

13. 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.

14. Notice of the filing of the Application appeared on the Commission's Daily Calendar of November 27, 1996, and no protests were filed. There is no known opposition to the Application 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.
3. The proposed issue of Securities is for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the issue may not be charged to operating expense or income.

4. Pacific should pay the fee determined in accordance with PU Code § 1904.

O R D E R

IT IS ORDERED that:

1. Pacific Bell (Pacific), on or after the effective date of this order, is authorized to do the following, upon terms and conditions substantially consistent with those set forth or contemplated in Application (A.) 96-11-038 (Application):

- a. to issue bonds, notes, debentures, secure loans, capitalized leases and other types of debt securities, and preferred stock (collectively Securities) and to guarantee unconditionally or otherwise secure the obligations of other parties in connection with the issuance of Securities or for other purposes for the benefit of Pacific, said Securities to include, at Pacific's discretion, one or more of the features described in the application, all such issues of Securities to take place at any time from the date of the authorization until the total aggregate principal amount authorized has been fully utilized;
- b. to arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing the Securities and to modify such credit facilities in a manner consistent with the Application without further authorization from the Commission;
- c. to execute and deliver indentures or supplemental indentures to sell, lease, assign, or otherwise dispose of or encumber utility property in connection with the issuance of Securities.

2. The total aggregate principal amount (or net proceeds in the case of discount, zero coupon or similar securities) of Securities issued and guarantees made pursuant to the Application shall not exceed \$1 billion, and the proceeds therefrom shall be applied for the purposes referred to in the Application.

3. Pacific may utilize and enter into interest rate swaps, caps, floors, collars and similar arrangements, such authorization to be in addition to and independent of the requested authorization for the issuance of Pacific's Securities and not counted against the maximum dollar amount authorized.

4. Pacific's interest rate swaps, caps, floors and similar arrangements shall not exceed 20% of Pacific's total debt, preferred stock and preferred securities then outstanding.

5. Pacific shall limit its use of swaps and other derivative financial instruments issued in connection with long-term debt to those involving counterparties having credit ratings equal to or better than Pacific's.

6. Pacific shall separately report all interest income and expenses arising from swaps in all monthly and annual financial reports to the Commission.

7. Pacific shall maintain and make available to the Telecommunications Division, within thirty days of request, (a) a report analyzing the swap including all costs associated with the swap in comparison to a projection of all-in cost without a swap and (b) a copy of the executed swap agreement and all associated documentation.

8. Deferrable interest securities transactions shall be subject to conditions consistent with our findings.

9. Pacific shall maintain, and within thirty days from request, provide the Telecommunications Division any or all of the following:

- a. The price, interest rate and other terms pertaining to its issuance of Securities.
- b. Copies of the purchase and underwriting agreements.
- c. Copies of the indentures and supplemental indentures setting forth, among other things, the aggregate principal amount, interest rate, conversion factors, redemption and sinking fund requirements and the maturity date of issue of bonds and debentures.

- d. Copies of the agreements setting forth, among other things, the aggregate principal amount, interest rate, final maturity date and other items of any series of notes.

10. Pacific's request for exemption from the Competitive Bidding Rule with respect to medium-term notes; commercial paper; commercial bank borrowings; swaps, caps, floors, collars, swap options, and similar arrangements; loans; capitalized leases; variable rate debt; overseas indebtedness; foreign securities; structured and negotiated transactions as described in the Application; and issues in excess of \$200,000,000 is granted.

11. Consistent with the modifications to the Competitive Bidding Rule set forth in Resolution No. F-616, Pacific is authorized to use the bidding procedures described on page 11 of the Application.

12. On or before the 25th day of each month, Pacific shall submit the reports required by General Order Series 24.

13. The authority granted to Pacific by Decision (D.) 93-09-062, is modified to extend the period of authorization until the unused amount is fully issued.

14. D.93-09-062 is further modified to expand the permitted terms and conditions to conform with the types of Securities and use of proceeds sought under A.96-11-038.

15. In all other respects, D.93-09-062, shall remain in full force and effect.

16. The Application is granted as set forth above.

A.96-11-038 TELCO/RHG

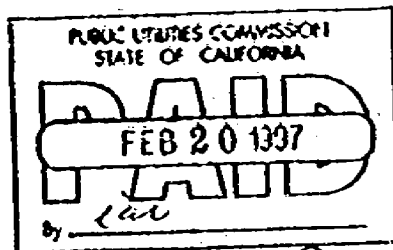
17. The authority granted by this order shall become effective when Pacific pays \$533,500, the fee set forth by Public Utilities Code § 1904.

18. This proceeding is closed.

This order is effective today.

Dated February 5, 1997, at San Francisco, California.

P. GREGORY CONLON
President
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners



CR # 39370