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Decision 97-10-053 October 22, 1997

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GTE California )  
Incorporated U-1002-C, to issue and ) Application 97-09-003  
sell up to \$200,000,000 of Debentures.) (Filed September 2, 1997)

O P I N I O N

Summary of Decision

This decision grants GTE California Incorporated (GTEC) the authority requested in Application (A.) 97-09-003 (Application).

GTEC requests authority, pursuant to §§ 816 et seq. and 851 of the Public Utilities (PU) Code, to issue, sell, and deliver up to \$200,000,000 in new debentures (debentures) in one or more transactions on the open market by competitive bid on or after the effective date of this order and on or before December 31, 2000.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of September 9, 1997. 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 the states of Arizona, California, and Nevada. These 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 June 30, 1997, GTEC reports it generated total operating revenues of \$1,471,316,000 and net income

of \$216,351,000, 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>	(in thousands) <u>Amount</u>
Net Telephone Plant	\$4,719,919
Short-term Notes Receivable	3,222
Unamortized Debt Issuance Expense	44,310
Current Assets and Deferred Debits	<u>1,505,879</u>
 Total Assets	 \$6,273,330
<u>Liabilities &amp; Stockholders' Equity</u>	<u>Amount</u>
Current Liabilities	\$ 666,917
Noncurrent Deferred Taxes and Unamortized Investment Tax Credit	807,069
Other Deferred Liabilities	852,129
Short-term Notes Payable	469,878
Current Maturities of Long-term Debt	160,297
Long-Term Debt	<u>1,020,274</u>
 Subtotal	 \$3,976,564
Stockholders' Equity & Retained Earnings	<u>2,296,766</u>
 Total Liabilities & Stockholders' Equity	 \$6,273,330

Description of Financing and Manner of Issuance

Decision (D.) 96-03-014 in A.95-12-080, authorized GTEC to issue up to \$300,000,000 of debentures. This authority is unused and GTEC plans to issue the debentures in September 1997. A.95-12-080 indicated that the debentures will have maturities of up to 40 years and the coupon is projected to be in the range of 6.5% to 7.5% depending on the length of maturity.

Pursuant to the Application, GTEC seeks Commission authority to issue, sell, and deliver \$200,000,000 of debentures above its \$300,000,000 unused authority, in one or more transactions on the open market by competitive bid. GTEC will file a shelf with the Securities and Exchange Commission (SEC) that will authorize the issuance of the debentures for cash. The life of a SEC shelf registration is typically two to three years.

Capital Ratios

GTEC's capital ratios at June 30, 1997, shown as part of Exhibit A to the Application, are presented below as recorded and as adjusted to give pro forma effect to the Application's proposed \$200,000,000 debentures, D.96-03-014's \$300,000,000 unused authority, and the transactions that follows:

	(in thousands)			
	Recorded		Pro Forma	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Debt:				
First Mortgage Bonds(1)	\$ 230,000	5.90%	\$ 70,000	1.80%
Debentures	900,000	23.08%	1,400,000	35.90%
Affiliate Note	50,000	1.28%	50,000	1.28%
Capital Leases	720	0.02%	720	0.02%
Unamortized Premium/ Discount	(149)	0.00%	(149)	0.00%
Unamortized Debt Issuance Expense	(44,310)	-1.14%	(49,310)	-1.26%
Net Short-term Debt (2)	<u>466,656</u>	<u>11.97%</u>	<u>131,656</u>	<u>3.38%</u>
Subtotal	\$1,602,917	41.11%	\$1,602,917	41.12%
Preferred Stock	49,983	1.28%	49,983	1.28%
Common Equity	<u>2,246,783</u>	<u>57.61%</u>	<u>2,246,783</u>	<u>57.60%</u>
Total Capitalization	\$3,899,683	100.00%	\$3,899,683	100.00%

(1) \$160,000,000 retirement of First Mortgage Bonds.

(2) \$335,000,000 decrease in Short-term Debt.

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 1997 through 1999 includes, among other things, cash flows from financing activities of \$500,000,000 long-term debt to be issued, \$210,000,000 long-term debt to be retired, and \$175,000,000 refunding of high-cost long-term debt, shown as part of Exhibit A to the Application. The cash flow summary is as follows:

	(in thousands)		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Cash Flow from Operating Activities	\$1,010,337	\$1,130,534	\$1,203,581
Less:			
Cash Used for Investing	531,000	557,000	594,000
Cash Flow from Financing	<u>456,771</u>	<u>573,534</u>	<u>609,581</u>
Increase/(Decrease) in Cash	\$ 22,566	0	0

Use of Proceeds

GTEC indicates in the Application that the proposed combined issue of \$500,000,000 debentures will be used for the purpose of refunding short-term obligations that have been or will be accumulated in calling \$175,000,000 of high-cost long-term debt<sup>1</sup>, \$32,000,000 of high-cost preferred, replacing \$160,000,000 of maturing long-term debt, and funding its on-going operations and construction program.

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<sup>1</sup> Series J, T, U, and X First Mortgage Bond were refunded on 5/1/97 prior to their maturity dates of 12/1/97, 12/31/97, 12/1/98, and 12/1/01 respectively. The net present value of the early redemptions was \$1.2 million. Interim interest rates associated with the calls have been hedged to "lock in" the savings until the amounts can be refinanced with the new long-term debentures being sought in the Application.

GTEC lists in its Exhibit D and supplemental data to the Application the following authorizations and fees paid for long-term debt issues to be refunded and replaced, and certain interim long-term debt refunding by short-term debt which will be replaced with the proceeds of the debentures:

<u>Application No.</u>	<u>Decision No.</u>	<u>Authorized Amount</u>	<u>New Money</u>	<u>Fee</u>
92-09-020	92-12-067	\$450,000,000	\$450,000,000	\$231,000
52903	79287	50,000,000	50,000,000	31,000
50587	74862	60,000,000	24,000,000	18,000
49717	73253	60,000,000	24,000,000	18,000

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."

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. In addition, PU Code § 817(d) and (h) provide that a utility may issue bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months for the discharge or lawful refunding of its obligations, and for the reimbursement of moneys actually expended from income or from any other money in the treasury not secured by or obtained from the issue of stocks or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness, respectively.

The proposed use of proceeds is for proper purposes and is not adverse to the public interest. For purposes of this Application and pursuant to PU Code §§ 818 and 823(d), we will approve GTEC's intended use of proceeds (including retirement and discharge of short-term debt) from the proposed issue of debentures.

GTEC is placed on notice that the proceeds from the financing transaction cannot be charged to operating expenses or income.

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. 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.
6. 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.

7. PU Code § 817(d) provides that a utility may issue bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months for the discharge or lawful refunding of its obligations; and § 817(h) allows the reimbursement of moneys actually expended from income or from any other money in the treasury not secured by or obtained from the issue of stocks or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness.

8. The Commission does not by this decision determine that the capital structure and cash requirements forecast presented herein are necessary or reasonable for ratemaking purposes.

9. 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. Pursuant to PU Code § 1904(b), there is no fee applicable to the proposed authorization because it is for the refinancing or refunding of prior outstanding indebtedness for which a fee has previously been paid.
5. The following order should be effective on the date of signature.

O R D E R

IT IS ORDERED that:

1. GTE California Incorporated (GTEC), on or after the effective date of this order and on or before December 31, 2000, is authorized to issue, sell, and deliver debentures in an aggregate principal amount not to exceed \$200,000,000, as set forth in or contemplated in Application 97-09-003 (Application).

2. The proceeds of the \$200,000,000 authorized amount of debentures shall be used for no other purpose than for retiring or refunding securities previously issued or the discharge and lawful refunding of GTEC's obligations.

3. GTEC shall upon issuance of the debentures notify the Telecommunications Division by letter of the terms and conditions of those debentures.

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

5. This proceeding is closed.

This order is effective today.

Dated October 22, 1997 at San Francisco, California.

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