

TELCO/RHG

Decision 98-11-025 November 5, 1998

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of GTE California)
Incorporated U-1002-C, to issue and sell up to)
\$600,000,000 of New Debt.)

Application 98-09-002
(Filed September 2, 1998)

OPINION

Summary of Decision

This decision grants GTE California Incorporated (GTEC) the authority requested in Application (A.) 98-09-002 (Application).

GTEC requests authority, pursuant to §§ 816 through 830 and § 851 of the Public Utilities (PU) Code, and Articles 2.5 and 8 of the Rules of Practice and Procedure of the California Public Utilities Commission to issue, sell, and deliver up to \$600,000,000 of Private Placement Notes or Debentures (New Debt) in one or more transactions on the open market through underwriters to the public after the effective date of this order and on or before December 31, 2001.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of September 4, 1998. 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. Pursuant to Exhibit D to the Application, GTEC's percent of California Net Property to GTE California is 98.62%.

For the year-to-date June 30, 1998, GTEC reports it generated total operating revenues of \$1,464,900,000 and net income of \$156,038,000, 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:

(Thousands of Dollars)	
<u>Assets</u>	<u>Amount</u>
Net Telephone Plant	\$4,617,769
Short-term Notes Receivable	1,605
Unamortized Debt Issuance Expense	42,131
Current Assets and Deferred Charges	<u>1,665,083</u>
Total	\$6,326,588
<u>Liabilities and Equity</u>	<u>Amount</u>
Current Liabilities	\$ 812,219
Noncurrent Deferred Taxes and Unamortized Investment Tax Credit	953,356
Other Deferred Liabilities	662,777
Short-term Notes Payable	340,393
Current Maturities of Long-term Debt	212
Long-term Debt	<u>1,465,825</u>
Subtotal	\$4,234,782
Stockholders' Equity and Retained Earnings	<u>2,091,806</u>
Total	\$6,326,588

Description of Financing

GTEC proposes to issue, sell, and deliver \$600,000,000 of New Debt in one or more transactions through underwriters to the public. GTEC requests that the authorization be effective until December 31, 2001. Pursuant to the Application, the issue will be either by competitive bidding or negotiated sale on a private placement basis at a negotiated price.

GTEC states in the Application that a shelf registration for the issuance of the New Debt will be filed with the Securities and Exchange Commission (SEC). The life of a SEC shelf registration is typically 2-3 years.

Exemption from the Competitive Bidding Rule

Resolution F-616 states that the Commission 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.

Pursuant to its supplemental information to the Application, GTEC states 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. The size of a debt offering may determine whether competitive bidding or a negotiated offering will result in the lowest cost. In a negotiated offering, an underwriting syndicate can be formed that consists of virtually the entire investment banking community. In a competitively bid offering, the community is divided into competing bidding syndicates, with fewer participants and increased risk for each participant. Competitive bidding tends to fragment the capital commitment and placement capabilities of underwriters, who must work against each other and have less time to gauge and build market demand for an offering. As a result, competitive bidding for issues in excess of \$200,000,000 is likely to result in a higher cost of funds.

In addition, a negotiated offering may provide greater flexibility to adjust the timing and terms of a proposed debt offering to meet changing market conditions.

In Decision (D.) 96-03-014 dated March 13, 1996 and D.94-03-032 dated March 9, 1994, the Commission granted GTEC exemption from the Competitive Bidding Rule for issues in excess of \$200,000,000 principal amount to provide it the flexibility to meet its financing requirements on the most favorable terms available.

Having explicitly determined them reasonable previously, we see no reason to object to GTEC's request for exemption from the Competitive Bidding Rule with respect to debt issues in excess of \$200,000,000. Because of the size of the issue, an exemption is warranted. For this

Application, we will authorize an exemption from the Competitive Bidding Rule for GTEC's New Debt issues in excess of \$200,000,000 principal amount.

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.

Capital Expenditures

GTEC's projected capital expenditures by plant type are as follows:

	(Thousands of Dollars)			
<u>Item</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
General Support Assets	\$ 39,04	\$ 38,733	\$ 38,138	\$ 40,159
Central Office Equipment	371,505	368,569	362,903	382,138
Information Origination/ Termination Assets	10,980	10,894	10,726	11,295
Cable and Wire Facilities Assets	156,166	154,932	152,550	160,636
Other Assets	<u>32,332</u>	<u>32,075</u>	<u>31,583</u>	<u>33,256</u>
Total Capital Expenditures	\$610,025	\$605,203	\$595,900	\$627,484

GTEC's projected capital expenditures raise no questions that should dissuade us from giving favorable consideration to the financing requested in the Application. These are necessary for GTEC to provide for the continuing improvement and growth of its telephone system so as to meet the rapidly increasing demands for telephone services it furnishes.

We will not, however, make a finding in this decision on the reasonableness of GTEC's projected expenditures.

Environmental Assessment

We place GTEC on notice that to the extent that the requested funds may be used for the construction of new facilities, it should, as required, comply with any applicable environmental regulations for any capital improvement undertaken relative to this decision.

Capital Ratios

GTEC's capital ratios as of June 30, 1998, shown as part of Exhibit A to the Application, are presented below as recorded and adjusted to give pro forma effect to the proposed issue of \$600,000,000 of New Debt and \$300,000,000 maturity of Series A Debentures; \$294,000,000 refunding of short-term debt; and increase of \$6,000,000 in unamortized debt issuance expense:

(Thousands of Dollars)

	<u>Recorded</u>		<u>Pro-Forma</u>	
	Amount	Percentage	Amount	Percentage
Debt				
First Mortgage Bonds	\$ 70,000	1.82%	\$ 70,000	1.82%
Debentures	1,400,000	36.32%	1,700,000	44.10%
Capital Leases	422	0.01%	422	0.01%
Unamortized Premium/ Discount	(4,385)	-0.11%	(4,385)	-0.11%
Unamortized Debt Issuance Expense	(42,131)	-1.09%	(48,131)	-1.25%
Short-term Funds - Net	<u>338,788</u>	<u>8.79</u>	<u>44,788</u>	<u>1.16%</u>
Subtotal	\$1,762,694	45.74%	\$1,762,694	45.73%
Preferred Stock	49,983	1.30%	49,983	1.30%
Common Equity	<u>2,041,823</u>	<u>52.96%</u>	<u>2,041,823</u>	<u>52.97%</u>
Total	\$3,854,500	100.00%	\$3,854,500	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 Flow

GTEC's projected cash flow statement for 1998 through 2001 is summarized as follows:

	(Thousands of Dollars)			
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Cash Flows:				
From Operating Activities	\$1,174,185	\$1,087,548	\$1,102,645	\$1,167,528
From Investing Activities	(610,025)	(605,203)	(595,900)	(627,484)
From Financing Activities	<u>(564,160)</u>	<u>(482,345)</u>	<u>(506,745)</u>	<u>(540,044)</u>
Net Cash Flows	0	0	0	0
Cash and Temporary Investments at End of Period	9,871	9,871	9,871	9,871
Cash and Temporary Investments at Beginning of Period	<u>9,871</u>	<u>9,871</u>	<u>9,871</u>	<u>9,871</u>
Change in Cash Balance	0	0	0	0

GTEC's projected cash flow statement indicates that it would require additional funds from external sources amounting to \$2,093,294,000 for 1998, 1999, 2000, and 2001.

Use of Proceeds

GTEC states in the Application that the proceeds from the New Debt will be used to refund short-term obligations that have been or will be accumulated in calling high-cost securities, replace \$300,000,000 of maturing long-term debt (Series A Debentures, due February 1, 2001), and fund GTEC's on-going operations and construction program.

PUC 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.

GTEC's 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 refunding of short-term debt) from the proposed issue of New Debt.

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

In Resolution (Res.) ALJ 176-3000 dated September 17, 1998, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3000.

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 New Debt is for proper purposes.
4. The money, property, or labor to be procured or paid for by the proposed New Debt is reasonably required for the purposes specified in the Application.
5. PU Code § 823(d) provides that no note payable at 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. Res. P-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.

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. Notice of the filing of the Application appeared on the Commission's Daily Calendar of September 4, 1998, and no protests have been received. There is no known opposition to the Application and 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 New Debt is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. Proceeds from the New Debt may not be charged to operating expense or income.
4. This Application for financing approval does not require environmental review, but construction with the proceeds of this financing may.
5. Because of the size of the offering, GTEC should be granted exemption from the Competitive Bidding Rule for debt issues in excess of \$200,000,000.
6. GTEC will pay the fee in accordance with PU Code § 1904(b).
7. The following order should be effective on the date of signature.

ORDER

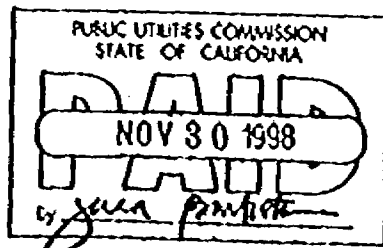
IT IS ORDERED that:

1. GTE California Incorporated (GTEC), on or after the effective date of this order and on or before December 31, 2001, is authorized to issue, sell and deliver up to \$600,000,000 of Private Placement Notes or Debentures (New Debt) in accordance with the terms and conditions set forth or contemplated in Application (A.) 98-09-002 (Application).
2. GTEC shall apply the proceeds from the sale of the New Debt for the purposes set forth in the Application.
3. GTEC's proposed issue of New Debt in amounts over \$200,000,000 are exempted from the requirements of the Commission's Competitive Bidding Rule.
4. On or before the 25th day of each month, GTEC shall file the reports required by General Order Series 24.
5. The authority granted by this order shall become effective when GTEC pays \$153,929, the fee set forth by Public Utilities Code 1904(b).
6. Application 98-09-002 is closed.

This order is effective today.

Dated November 5, 1998, at San Francisco, California.

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



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