

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking on the Commission's Own Motion to Consider Effectiveness and Adequacy of the Competitive Bidding Rule for Issuance of Securities and Associated Impacts of General Order 156, Debt Enhancement Features, and General Order 24-B.

Rulemaking 11-03-007
(Filed March 10, 2011)

**COMMENTS ON THE WORKSHOP REPORT OF
AT&T CALIFORNIA (U 1001 C)
VERIZON CALIFORNIA INC. (U 1002 C)
AND SUREWEST TELEPHONE (U 1015 C)**

Pursuant to the Revised Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge dated November 15, 2011, AT&T California and certain of its regulated affiliates,¹ Verizon California Inc., and Surewest Telephone ("URF ILECs") hereby submit their comments on the January 20, 2012 Workshop Report.

I. THE UTILITY LONG-TERM DEBT FINANCING RULE IS NOT APPLICABLE TO THE URF ILECS BECAUSE THEY HAVE A STATUTORY EXEMPTION FROM ARTICLE 5 OF THE CALIFORNIA PUBLIC UTILITIES CODE REGARDING STOCKS AND SECURITY TRANSACTIONS

As the URF ILECs explained in their jointly-filed pre-workshop statement and in comments on the OIR, we are exempt from the Commission's Competitive Bidding Rule. This exemption equally applies to the Utility Long-Term Debt Financing Rule

¹ The affiliates participating in these comments are AT&T Communications of California, Inc. (U 5002 C), TCG Los Angeles, Inc. (U 5462 C), TCG San Francisco, Inc. (U 5454 C), and TCG San Diego Inc. (U 5389 C), and AT&T Corp. dba Advanced Solutions (U 6346).

proposed as a replacement to the Competitive Bidding Rule. The new rule (and the workshop report draft of the new rule) should explicitly include a provision that includes this exemption.

The Commission's authority to issue any rule in this area is based on Article 5 (sections 816 through 830) of the California Public Utilities Code.² As we have previously explained, in 2007, the California Legislature amended section 829 to grant telephone corporations that are not rate-of-return regulated an exemption from the requirements of Article 5. The URF ILECs are not regulated on a rate-of-return basis, so they are subject to this exemption. The URF companies have no regulated means of recovering their costs for debt issuance from their customers. To the contrary, their shareholders bear the costs and risks of such transactions.

Accordingly, any revisions to the rules should make clear that URF ILECs are subject to the statutory exemption provided in section 829. Specifically, the Draft Revised "Utility Long-Term Debt Financing Rule" attached to the Workshop Report should be revised as follows:

3. This Rule does not apply to a telephone corporation that is not subject to rate-of-return regulation pursuant to Cal. Pub. Util. Code Section 829.

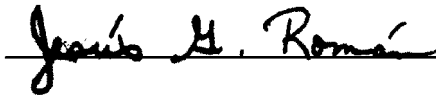
² For example, after discussing the statutory grant of authority to regulate debt financing found in then Section 52 of the Public Utilities Act (now section 816), the Commission in D.38614 acknowledged that the competitive bidding rule adopted in that decision is inextricably connected to that authority: "Section 52(b) provides that the Commission may . . . attach to the exercise of its permission [to issue debt] such condition or conditions as it may deem reasonable and necessary. A rule requiring competitive bidding would constitute merely a condition attached to a grant of authority to issue securities." 46 Reports of the Railroad Commission 281, 286-87 (1946).

II. GENERAL ORDER 156 APPLIES SUPPLIER DIVERSITY REQUIREMENTS TO FINANCIAL TRANSACTIONS OF UTILITIES, AND, THUS, THERE IS NO REASON TO ADD SUCH REQUIREMENTS TO THE UTILITY LONG-TERM DEBT FINANCING RULE.

Section 3 of the Draft Utility Long-Term Debt Financing Rule proposes to add supplier diversity requirements. This revision is not necessary because the supplier diversity requirements set forth in GO 156 already apply to dollars spent by a utility for financial services. Specifically, these amounts are included in the annual reports required by GO 156. The amounts paid for financial services are reported under Standard Industrial Classification Code 87 (consolidated with amounts paid for Engineering, Accounting, Research, Management, and Related Services). Because the rules in GO 156 already apply to this area, there is no need to include such requirements in the Utility Long-Term Debt Financing Rule.

DATE: February 3, 2012

Respectfully submitted,



Jesús G. Román
Attorney for Verizon California Inc.
2535 W. Hillcrest Drive, CAM21LB
Newbury Park, CA 91320
Telephone: (805) 499-6832
Facsimile: (805) 498-5617
jesus.g.roman@verizon.com

E. Garth Black
Mark P. Schreiber
Patrick M. Rosvall
COOPER, WHITE & COOPER LLP
201 California Street, 17th Floor
San Francisco, California 94111
Telephone: (415) 433-1900
Facsimile: (415) 433-5530

Attorneys for SureWest Telephone

NELSONYA CAUSBY
AT&T Services, Inc.
525 Market Street, Suite 2025
San Francisco, CA 94105
Tel.: (415) 778-1488
Fax: (415) 543-0418
E-mail: nelsonya.causby@att.com

Attorney for AT&T California and Certain
of its Regulated Affiliates