

TELCO/ICRJ/RHG

Decision _____

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

In the Matter of the Application of VERIZON CALIFORNIA INC. U-1002-C, pursuant to Public Utilities Code Sections 816 et. seq. and 851 to issue and sell up to \$1,340,000,000 of new debt.

Application 02-12-025
(Filed December 20, 2002)

OPINION

Summary

This decision grants Verizon California Inc. (Verizon) the authority requested in Application (A.) 02-12-025 (Application).

Verizon requests authority, pursuant to §§ 816 et. seq. and 851 of the Public Utilities (PU) Code to issue, sell, and deliver \$1,340,000,000 of Private Placement Notes or Debentures (New Debt) for the purpose of refunding and refinancing existing long-term securities and short-term obligations.

Notice of the filing appeared on the Commission's Daily Calendar of December 24, 2002. No protests have been received.

Background

Verizon is a California corporation operating as a public utility under the jurisdiction of the Commission. Verizon owns and operates 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. The percent of Verizon's California Net Property, Plant & Equipment (NP&E) is approximately 98.21% of the utility's total NP&E of \$3,827,491,022.

Verizon's year-to-date income statement dated September 30, 2002, shown as Exhibit A to the Application presents total operating revenues of \$2,241,181,000 and net income of \$383,753,000. The balance sheet as of the same period, shown as part of Exhibit A is summarized as follows:

(Thousands of Dollars)	
<u>Assets</u>	<u>Amount</u>
Net Telephone Plant	\$3,677,095
Short-term Notes Receivable	0
Unamortized Debt Issuance Expense	33,699
Current Assets and Deferred Charges	<u>2,922,883</u>
Total Assets	<u>\$6,633,677</u>
<u>Liabilities & Stockholders Equity</u>	
Liabilities:	
Current Liabilities	\$ 688,219
Noncurrent Deferred Taxes & Unamortized ITC	690,489
Other Deferred Liabilities	1,772,421
Short-term Notes Payable	710,610
Current Maturities of Long-term Debt	2,517
Long-term Debt	<u>1,659,539</u>
Subtotal	\$5,523,795
Stockholders' Equity:	
Common Stock	\$1,400,000
Additional Paid-in Capital	441,696
Retained Earnings	<u>(731,814)</u>

Subtotal \$1,109,882

Total Liabilities & Stockholders' Equity \$6,633,677

Proposed Securities

Verizon seeks authorization to issue New Debt in an aggregate principal amount of up to \$1,340,000,000 in one or more transactions until December 31, 2005.

The New Debt may be issued directly as debentures, notes, bonds, loans, or other evidences of indebtedness which may include (but not limited to) extendible commercial notes, bank loans, private placement with insurance companies or other lenders, banker's acceptances, or other variable rate or fixed rate borrowing instruments which are or may become available in the capital markets.

The Application states that the precise amount and timing of each type of debt obligation; the market in and the method by which it will be issued; and the terms and provisions, price, and interest rate (which may be fixed, adjustable, variable or set by auction, remarketing, or other rate setting procedures) will be determined by Verizon, with due regard for its financial condition and prevailing requirements, as well as the anticipated market conditions, including competing demands for funds, existing at the time of sale.

Verizon seeks to issue the New Debt (1) to the public through underwriters either by competitive bidding or negotiated sale, or (2) on a private placement basis at a negotiated price. Private placement may be with affiliated or non-affiliated entities.

Verizon also requests authorization to assign, mortgage or encumber utility property in connection with the issuance and sale of the New Debt

in the event that utility assets have to be encumbered to secure the debt issues.

Competitive Bidding Rule

In D.02-04-058, the Commission granted Verizon exemption from the Competitive Bidding Rule for debt issues with principal amounts greater than \$200 million, and for variable rate debt securities and negotiated financing transactions, in conjunction with future approvals under §§ 816 through 830 of the PU Code.

Accordingly, the exemption applies to this proceeding. However, all other issues of fixed-rate bonds and debentures (other than tax-exempt securities) over \$20 million but not greater than \$200 million are subject to the Competitive Bidding Rule.

Capital Ratios

Verizon's capital ratios as of September 30, 2002, are shown below as recorded and as adjusted to give pro forma effect to the projected issuance of \$1,340,000,000 New Debt, retirement of \$65,000,000 first mortgage bonds, replacement of \$775,000,000 maturing long-term debt and high-cost long-term securities, refinancing of approximately \$486,600,000 of existing short-term notes payable, and a \$13,400,000 estimated increase in unamortized debt issuance expense:

(Thousands of Dollars)

	<u>Recorded</u>		<u>Adjustments</u>		<u>Proforma</u>	
Debt:						
First Mortgage Bonds	\$ 65,000	1.89%	\$ (65,000)	\$ 0	0.00%	
Debentures	1,600,000	46.39%	565,000	2,165,000	62.78%	
Capital Leases	151	0.00%	-	151	0.00%	
Unamortized Premium/ Discount	(3,095)	-0.09%	-	(3,095)	-0.09%	
Unamortized Debt						
Issuance Expense	(33,699)	-0.98%	(13,400)	(47,099)	-1.37%	
Short-term Funds – Net	<u>710,610</u>	<u>20.60%</u>	(486,600)	<u>224,010</u>	<u>6.50%</u>	
Subtotal	<u>\$2,338,967</u>	<u>67.81%</u>		<u>\$2,338,967</u>	<u>67.82%</u>	
Common Equity:						
Common Stock	\$1,400,000	40.60%		\$1,400,000	40.59%	
Additional Paid-in Capital	441,696	12.81%		441,696	12.81%	
Retained Earnings	<u>(731,814)</u>	<u>-21.22%</u>		<u>(731,814)</u>	<u>-21.22%</u>	
Subtotal	<u>\$1,109,882</u>	<u>32.19%</u>		<u>\$1,109,882</u>	<u>32.18%</u>	
Total Capitalization	<u>\$3,448,849</u>	<u>100.00%</u>		<u>\$3,448,849</u>	<u>100.00%</u>	

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

Use of Proceeds

Verizon proposes to use the proceeds from the issuance of New Debt for the following purposes (i) refunding certain short-term obligations that have been or will be accumulated in calling up to \$580 million of high-cost long-term securities, (ii) replacing \$260 million of maturing long-term debt, and (iii) refinancing approximately \$500 million of existing short-term notes payable.

§ 817(d) of the PU Code allows a public utility to issue stock or evidences of indebtedness payable at period of more than 12 months for the discharge or lawful refunding of its obligations.

§ 823(d) of the PU Code provides that no note payable at a period of not more than twelve 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.

§ 1904(b) of the PU Code 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.

Pursuant to § 818 of the PU Code, we will approve Verizon's proposed debt issue, the proceeds of which are to be used to retire existing long-term debt securities and refund short-term obligations.

Pursuant to § 851 of the PU Code, we will allow Verizon to encumber its property whenever such encumbrance serves to secure the debt authorized herein.

Izetta C.R. Jackson is the assigned Examiner in this proceeding.

In Resolution (Res.) ALJ 176-3105 dated January 16, 2003, 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 176-3105.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. Verizon, a California corporation, is a public utility subject to the jurisdiction of this Commission.
2. Verizon needs external funds for the purposes set forth in the Application.
3. The authorized issue of New Debt is for proper purposes and is not adverse to the public interest.
4. Authorizing Verizon to determine the precise amount and timing of each debt issue, the market in and method by which each debt issue is effected, and the price, interest rate, and other material provision of each debt issue would not be adverse to the public interest.
5. Authorizing Verizon to encumber utility assets in the event that such encumbrance will be required to secure the New Debt is for proper purposes and is not adverse to the public interest.

6. The Commission does not by this decision determine that the capital ratios presented herein is necessary or reasonable for purposes of setting rates.

7. Verizon's California NP&E is approximately 98.21%.

8. Notice of the filing of the Application appeared on the Commission's Daily Calendar of December 24, 2002. 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 that follows.

3. § 817(d) of PU Code provides that debt issues may be used for the discharge or lawful refunding of obligations.

4. § 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.

5. D.02-04-058 granted Verizon exemption from the Commission's Competitive Bidding Rule for debt issues with principal amounts greater than \$200 million, and for variable rate debt securities and negotiated financing transactions, in conjunction with future approvals under §§ 816 through 830 of the PU Code.

6. Verizon should pay the fee determined in accordance with § 1904(b) of the PU Code and in proportion to its California NP&E.
7. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, and on or before December 31, 2005, Verizon California Inc. (Verizon), upon terms and conditions substantially consistent with those set forth or contemplated in Application 01-12-025 (Application), is authorized to issue debentures, notes, bonds, enter into loans, or other evidences of indebtedness which may include (but are not limited to) extendible commercial notes, bank loans, private placement with insurance companies or other lenders, banker's acceptances, or other variable rate or fixed rate borrowing instruments which are or may become available in the capital markets (New Debt) in one or more transactions in an aggregate amount not to exceed \$1,340,000,000 for the purposes specified in the Application.

2. Verizon may execute and deliver any or all related documents required for completion of the New Debt, and encumber its assets in connection with the debt issues.

3. Verizon may determine the precise amount and timing of each debt financing, the market in and method by which each is issued, the principal amounts and maturities, the terms and provisions, price and interest rate (which may be fixed, adjustable, variable or set by auction, remarketing, or other rate setting procedures) of the borrowings and of any securities related thereto or issuable in connection therewith in the manner set forth in the Application.

4. Of the \$1,340,000,000 authorized amount of New Debt, approximately \$840,000,000 shall be used for no other purpose than for retiring or refunding long-term debt securities previously issued and upon which Verizon has paid the fees prescribed by § 1904(b) of the PU Code; and refinancing approximately \$486,600,000 of existing short-term obligations.

5. Verizon's debt issues with principal amounts greater than \$200 million, variable rate debt securities, and negotiated financing transactions are exempt from the requirements of the Commission's Competitive Bidding Rule. All other issues of fixed-rate bonds and debentures (other than tax-exempt securities) over \$20 million but not greater than \$200 million are subject to the Competitive Bidding Rule.

6. Verizon shall file the reports required by General Order No. Series 24-B quarterly.

7. The authority granted by this order shall become effective when Verizon pays \$251,533¹ as required by § 1904(b) of the Public Utilities Code.

8. The Application is granted as set forth above.

¹ The amount subject to the fee is \$491,066,000 (\$1,340,000,000 less \$840,000,000 proceeds to be used to refinance long-term whereby the fee have been paid x 98.2132% California NP&E). NP&E is the allocation methodology used to determine the fee in Verizon's last four financing proceedings. The fee is determined as follows: $(\$2 \times (1,000,000/1,000)) + (\$1 \times 9,000,000/1,000) + (\$0.50 \times (481,066,000/1,000)) = \$251,533$.

9. A.02-12-025 is closed.

This order is effective today.

Dated _____, at San Francisco, California.