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COMM/KPC/KOK/DLW/RHG

Decision 07-06-039 June 21, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of VERIZON CALIFORNIA INC. U-1002-C for Authority pursuant to Public Utilities Code Sections 816 *et. seq.* and 851 to issue and sell up to $1,965,000,000 of New Debt.	Application 06-09-023 (Filed September 29, 2006) Amendment to Application (Filed April 13, 2007)

OPINION GRANTING AUTHORITY TO ISSUE DEBT SECURITIES

1. Summary

This decision grants Verizon California Inc. (Verizon) the authority requested in Application (A.) 06-09-023, as amended (Application).

Verizon requests authority, pursuant to Pub. Util. Code §§ 816 *et. seq.* to:

1. Issue, sell and deliver $625,000,000 of Private Placement Notes or Debentures (New Debt), in one or more transactions, after the effective date of this order and on or before December 31, 2012, in lieu of the original filing of $1,965,000,000, with an effective date of up to December 31, 2011;

2. Be exempt, pursuant to Decision (D.) 02-04-058, from the Commission's Competitive Bidding Rule for debt issues with principal amount greater than $200 million, and for variable rate debt securities and negotiated financing transactions.

3. Be exempt from paying the fees, pursuant to §1904(b). [1]

[1] All statutory references are to the Public Utilities Code unless otherwise indicated.

2. Background

Verizon is a California corporation operating as a public utility under the jurisdiction of the Commission. Verizon owns and operates telecommunication systems in the states of Arizona, California, and in Nevada. Their 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.

Verizon is no longer regulated by the Commission under cost-of-service regulation. It is regulated under the Uniform Regulatory Framework (URF) for telecommunications utilities.

In the Application, Verizon states that on March 3, 2004, Verizon filed a Certification and Notice of Termination of Registration with the Securities and Exchange Commission (SEC).[2] With that filing, Verizon no longer issues publicly traded debt securities. Instead, Verizon intends to use private-placement notes, which will be issued with either affiliated or non-affiliated entities, depending upon the then-prevailing market conditions. Verizon opines that this change in funding procedures, eliminating publicly traded debt securities, will reduce its overall administrative costs associated with both the issuance of debt and the preparation of external financial reports required of Verizon when its debt is publicly traded. Verizon claims that the new procedures will not adversely affect the interest rates that Verizon obtains on future long-term debt security issuances.

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[2] Since Verizon is a wholly-owned subsidiary of GTE Corporation, it is not required to file any reports with the SEC with respect to its common stock.

GTE California Incorporated (GTEC), which was succeeded by Verizon, previously issued long-term borrowings authorized by this Commission. In D.97-10-053, dated October 22, 1997, in A.97-09-003, GTEC was authorized to issue $200,000,000 of debentures for the refunding of debt and funding its construction program. In D.98-11-025, dated November 5, 1998, in A.98-09-002, the Commission authorized GTEC to issue $600,000,000 of private placement notes or debentures to retire exiting debt and for construction requirements.

In D.03-04-022, dated April 3, 2003 in A.02-12-025, the Commission authorized Verizon to issue $1,340,000,000 of private placement notes or debentures to retire existing debt. Verizon did not issue any long-term debt pursuant to D.03-04-022, and the authority expired in December 31, 2005.

Verizon originally filed for authority to issue $1,965,000,000 in debt. In its Amendment to the Application, filed on April 13, 2007, Verizon reduced its request and now proposes to issue only $625,000,000 in debt. Verizon explains that it intends to retire its short-term debt and/or some of its debt in general from the normal cash flow activities of company operations or cash from internal sources.

Verizon's year-to-date income statement, dated December 31, 2006, shown as supplemental Exhibit A to the Application, presents total operating revenues of $3,068,586,000 and net income of $463,109,000. The balance sheet, shown as part of supplemental Exhibit A, is summarized as follows:

Balance Sheet as of December 31, 2006
(Thousands of Dollars)

Assets	Amount
Net Property, Plant and Equipment	$4,155,140
Short-term Notes Receivable	0
Unamortized Debt Issuance	(10,792)
Current Assets & Deferred Charges	3,238,841
Total Assets	$7,383,189
Liabilities & Stockholders Equity	
Current Liabilities	$ 650,278
Noncurrent Deferred Taxes & Unamortized ITC	1,198,371
Other Deferred Liabilities	1,779,765
Short-term Notes Payable	1,412,098
Current Maturities of Long-term Debt	275,856
Long-term Debt	825,644
Subtotal	$6,142,012
Common Stock	$1,400,000
Additional Paid-in Capital	177,483
Retained Earnings	(336,306)
Subtotal	$1,241,177
Total Liabilities & Stockholders Equity	$7,383,189

3. Notice and Protests

Notice of the filing of the Application appeared on the Commission's Daily Calendar of October 3, 2006 and April 17, 2007. No protests have been received.

4. Description of New Debt

Verizon seeks authorization to issue, sell and deliver New Debt, to be issued in one or more transactions occurring after the effective date of this order, and on or before December 31, 2012. Verizon disclosed that the New Debt will be unsecured.

Verizon seeks to issue the New Debt on a private placement basis at a negotiated price with affiliated or non-affiliated entities. A private placement transaction is the sale of debt security to one investor or a few investors, as opposed to offering the security to the general public. According to Verizon, private placements have lower flotation costs, do not require SEC registration, do not require public disclosure, and in most cases, take less time to obtain funds.

For private placement transactions made with an affiliate, Verizon intends to use Verizon Network Funding, that provides financial and cash management services and advice to the Verizon operating telephone companies.[3] Non-affiliate transactions would be with financial institutions, such as insurance companies, pension funds, mutual funds or large banks.

[3] Pursuant to D.06-08-030, Ordering Paragraph 18, the Commission defers to the Federal Communications Commission's standard accounting practices and affiliate transaction rules for Verizon and certain other California carriers and indicated that the Commission would no longer require Verizon to maintain a set of regulatory accounts with California adjustments. Section 32.27 of the Code of Federal Regulations prescribes the affiliate transaction rules that Verizon must abide by when privately placing its debt with an affiliate.

Verizon requests that in order to allow it the flexibility to take advantage of the most favorable financing opportunities, the precise amount and timing of each type of debt obligation, including the market in, and the method by, which it will issue, be determined by Verizon at or prior to the time of sale. Similarly, Verizon requests that the terms and provisions, price and interest rate (which may be fixed, adjustable, variable or set by auction, remarketing, or other rate setting procedures) likewise be determined at the time of sale. Verizon indicates that it will make all these determinations with due regard for the company's financial condition and requirements then prevailing, as well as the anticipated market conditions, including competing demands for funds, existing at the time of sale.

Verizon notes that it intends to issue the New Debt directly, as debentures, notes, bonds, 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.

5. Cash Requirements Forecast

Although Verizon generates positive cash flows from operations, Verizon points out that a significant portion of its positive cash flow is reinvested in network plant, property and equipment for maintenance and growth. Verizon indicates that the balance is used to reduce debt and provide some returns to its shareholders. Verizon seeks as much flexibility as possible to be in the position to issue debt on the most favorable terms.

Using the proceeds from the New Debt to refund maturing debentures is reasonably required and the retirement of debt is not, in whole or in part, reasonably chargeable to operating expenses or income.

6. Use of Proceeds

Verizon intends to use the proposed New Debt to retire $625,000,000 of maturing debentures.

Verizon estimates that the issuance expense is 1% of the face value of the maturing bonds or approximately $6,250,000. This expense is not included in the long-term debt that must be paid to bondholders. Verizon indicates that it will pay this expense by using short-term borrowing.

Using the proceeds of debt issues for the retirement of bonds, notes, or other evidence of indebtedness are proper uses of funds, pursuant to § 817(g). However, we will not make a finding in this decision on the reasonableness of the debt costs.

7. Capital Structure

Verizon's capital ratios, as of December 31, 2006, are presented below, as recorded and adjusted, to give pro forma effect to the transactions listed below:

Current and Proforma Capital Structures
(Thousands of Dollars)

	Recorded		Adjustments	Proforma	
Debentures	1,100,000	29.21%	0[1]	1,100,000	29.21%
Capital Leases	3,184	0.08%	-	3,184	0.08%
Unamortized Premium/ Discount	(1,684)	-0.04%	-	(1,684)	-0.04%
Unamortized Debt Issuance Expense	10,792	0.29%	(6,250)[2]	4,542	0.12%
Net Short-term Funds	1,412,098	37.50%	6,250[3]	1,418,348	37.67%
Subtotal	2,524,390	67.04%	-	2,524,390	67.04%
Common Stock	1,400,000	37.18%	-	1,400,000	37.18%
Additional Paid-in Capital	177,483	4.71%	-	177,483	4.71%
Retained Earnings	(336,306)	-8.93%	-	(336,306)	-8.93%
Subtotal	1,241,177	32.96%	-	1,241,177	32.96%
Total Capitalization	3,765,567	100.00%	-	3,765,567	100.00%

Explanation of Adjustments:

1. The proposed issuance of New Debt, in the amount of $625,000,000 to replace $625,000,000 of Series D, Series E, and Series G debentures, will not produce an increase in debt securities.

2. Estimated $6,250,000 in debt issuance expense.

3. Increase in short-term debt of $6,250,000, to pay off the debt issuance expense.

We make no finding in this decision on the reasonableness of Verizon's projected capital ratios.

8. Debt Approval

Based on information provided by Verizon, external funds are reasonably required by Verizon to retire $625,000,000 of its maturing debentures. Using the funds from the proposed debt issuances to retire its maturing obligations is a permitted use of those funds pursuant to § 817(g) and the retirement of debt is not, in whole or in part, reasonably chargeable to operating expenses or income. Accordingly, we will authorize Verizon's proposed issue of New Debt, the proceeds of which are to be used to retire maturing long-term debt securities.

In D.02-04-058, the Commission permitted Verizon to submit the reports required by General Order (G.O.) 24-B quarterly. We will continue to allow Verizon to provide the reports required by G.O. 24-B on a quarterly basis.

Verizon's Application does not seek, and this decision does not grant, any authority to secure the New Debt with utility assets.

9. Competitive Bidding Rule

Verizon is requesting to continue to have an exemption from the Commission's Competitive Bidding Rule for debt issuances with principal amounts greater than $200 million, and for variable-rate debt securities and negotiated financing transactions, in accordance with the exemption granted to it by the Commission in D.02-04-058, for future approvals under §§ 816 through 830 of the PU Code.

In D.02-04-058, dated April 22, 2002 in A.01-04-023, the Commission granted Verizon an 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 any future approvals, under §§ 816 through 830, to provide the utility with the flexibility to meet its financing requirements on the most favorable terms available.

We do not see any reason that Verizon's exemption should not continue. Accordingly, the 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 should apply to the debt transaction being authorized by this proceeding.

10. Fees

Whenever the Commission authorizes a utility to issue debt, the Commission is required to charge and collect a fee in accordance with § 1904(b), which states:

> For a certificate authorizing an issue of bonds, notes, or other evidences of indebtedness, two dollars ($2) for each one thousand dollars ($1,000) of the face value of the authorized issue or fraction thereof up to one million dollars ($1,000,000), one dollar ($1) for each one thousand dollars ($1,000) over one million dollars ($1,000,000) and up to ten million dollars ($10,000,000), and fifty cents ($0.50) for each one thousand dollars ($1,000) over ten million dollars ($10,000,000), with a minimum fee in any case of fifty dollars ($50). 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 theretofore been paid to the commission. If the commission modified the amount of the issue requested in any case and the applicant thereupon elects not to avail itself of the commission's authorization, no fee shall be paid, and if such fee is paid prior to the issuance of such certificate by the commission, such fee shall be returned.

Pursuant to the Application, the debt to be replaced with the New Debt authority granted in this proceeding follows:

Maturing Securities to be Refunded with New Debt

Decision Number	Fees Paid	Securities Issued	Securities Maturing	Securities Details
D.94-03-032	$ 63,500	$600,000,000	$100,000,000	Series D, issued 5/1/96
D.96-03-014	98,500	300,000,000	300,000,000	Series E, issued 9/1/97
D.98-11-025	153,929	225,000,000	225,000,000	Series G, issued 1/22/99
Total			$625,000,000	

Because the entire amount of the New Debt will be used to retire debt for which fees have been previously paid to the Commission, no additional fees are due in this proceeding.

11. Categorization and Need for Hearings

In Resolution (Res.) ALJ 176-3180, dated October 5, 2006, 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 176-3180.

12. Comments on Proposed Decision

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

13. Assignment of Proceeding

Kevin P. Coughlan is the assigned Examiner in this proceeding.

Findings of Fact

1. A public hearing is not necessary.

2. Verizon California Inc. (Verizon), a California corporation, is a public utility subject to the jurisdiction of this Commission.

3. Verizon needs external funds for the purposes set forth in the Application.

4. This authorization for New Debt is for the retirement of existing debt under § 817.

5. Verizon's proposed New Debt will be unsecured.

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

7. Section 1904(b) provides that a fee does not have to 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 already been paid to the Commission.

8. In D.02-04-058, the Commission granted Verizon an 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. It also permitted Verizon to submit the reports required by G.O 24-B quarterly.

9. Notice of the filing of the Application, as amended, appeared on the Commission's Daily Calendar of October 3, 2006, and April 17, 2007. There is no known opposition to this proceeding, and the authority requested should be granted.

Conclusions of Law

1. The Application should be granted to the extent set forth in the order that follows.

2. The financing authority sought in this Application is reasonably required for the purposes specified.

3. The authority granted in this proceeding is for the issuance of New Debt and does not authorize the encumbrance of utility assets.

4. 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, 2012, Verizon California Inc. (Verizon), upon terms and conditions substantially consistent with those set forth or contemplated in Application 06-09-023, as amended (Application), is authorized to issue private placement notes or debentures, including bonds, loans, extendible commercial notes, 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 $625,000,000, for the purpose of retiring maturing long-term debt as specified in the Application and herein.

2. Verizon's debt issuances with principal amounts greater than $200 million, variable-rate debt securities, and negotiated financing transactions continue to be exempt from the requirements of the Commission's Competitive Bidding Rule.

3. Verizon shall file the reports required by General Order No. Series 24-B quarterly, as permitted herein.

4. The Application is granted as set forth above.
5. Application 06-09-023 is closed.

This order is effective today.

Dated June 21, 2007, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners