

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

GTE South Incorporated :
 :
Petition for authority to sell up to : **98-0222**
\$150,000,000 of new debt. :

ORDER

By the Commission:

Procedural History

In this proceeding, GTE South Incorporated ("Petitioner" or "GTE") filed with the Illinois Commerce Commission ("Commission") a petition seeking authority to issue and sell up to \$150,000,000 of New Debt ("New Debt"). Pursuant to due notice, a hearing was held in this matter on May 4, 1998, before a duly authorized Hearing Examiner of the Commission at its offices in Springfield, Illinois. Appearances were entered by counsel on behalf of the Petitioner, by Mr. Ed Bliler, a member of the Finance Department of the Commission's Financial Analysis Division, and by Ms. Judith Marshall, a member of the Commission's Telecommunications Division. Mr. Robert Deter, Petitioner's Manager-Financial Analysis, sponsored testimony and exhibits in support of the petition. At the conclusion of the hearing on May 4, 1998, the record was marked "Heard and Taken."

Description of Proposed Transaction

Petitioner is a corporation organized and existing under the laws of the State of Virginia, and is a telecommunications carrier within the meaning of 220 ILCS 5/13-202 of the Public Utilities Act, 220 ILCS 5/1-101, *et seq.* ("the Act"). This petition is filed pursuant to 220 ILCS 5/6-102 of the Act.

Petitioner proposes to issue and sell up to \$150,000,000 principal amount of new debt ("New Debt"). GTE South proposes to use the net proceeds from the sale of the New Debt, exclusive of account interest, to pay off short-term debt of approximately \$183 million, a portion of which has been or will be incurred to refund approximately \$35 million of high-cost securities; to retire approximately \$4 million of current maturities of long-term debt during 1998; to fund the Company's on-going operations and construction program; and to add the remaining balance, if any, to its treasury.

Petitioner proposes to sell the New Debt through underwriters to the public by competitive bidding and/or negotiated sale and/or sale on a private placement basis at a negotiated price. The New Debt will be issued at the prevailing market interest rate.

Depending on the length of maturity, which will not be less than five (5) nor more than forty (40) years, the interest rate is expected to be in a range of 6.00% to 7.50%. The proposed financing will be filed as a "shelf" with the United States Securities and Exchange Commission ("SEC"), which will provide the Company with the ability to issue the New Debt during the life of the "shelf registration," which is up to three years. The Company will pay a registration fee in compliance with the requirements of the SEC in connection with the sale of the New Debt.

The New Debt is to be issued under the provisions of the Debenture Indenture executed by Petitioner to the Nationsbank of Georgia, National Association, Trustee, on or about May 1, 1994.

In its Order entered October 18, 1995 in Docket No. 95-0419, the Commission authorized the Petitioner to issue up to \$450 million of new debentures. The Petitioner has remaining authority to issue \$75 million of debentures under that Order through December 31, 1998. Petitioner now proposes to issue and sell up to \$150 million of Private Placement Notes or Debentures ("New Debt") above the \$75 million of remaining authority authorized in Order 95-0419, resulting in a total of \$225,000,000 of new debt.

As of December 31, 1997, Petitioner had actual and proforma short-term debt totaling \$151,204,000 of notes payable, representing 8.28% of total capital, and \$32,037,000 of notes receivable, respectively. Petitioner says its pro forma short-term debt ratio would rise to a level greater than 10% if the \$225,000,000 of new debt were not issued. Mr. Deter testified that Petitioner generally refinances its short-term debt with long-term capital when its short-term debt level approaches 7.5% of total capital. He said this practice is in keeping with bond rating agency requirements for maintaining the Petitioner's bond ratings. Petitioner also represents that all of the funds which have been received from the Company's short-term financing have been or will be used for purposes of which securities are authorized to be issued under the provisions of the Act.

GTE witness Mr. Deter stated that the Petitioner's debentures are rated "AA-" by Standard and Poor's, "A2" by Moody's and "AA" by Duff and Phelps. The Company's key financial ratios, including the actual and pro forma interest coverage ratios of 7.46 times and 7.32 times, respectively, for the 12-month period ended December 31, 1997 are within rating agency guidelines for "AA" rated telecommunications companies, thus, the Company expects no change in its debt ratings at the time the Debt is issued.

Mr. Deter also testified that the Company plans to refund some of its securities prior to maturity because the interest rates available in the marketplace made it economically beneficial for the Company to call these issues. He said this was determined by performing a net present value analysis on the after-tax cash flows related to the refunding of each debt issue.

Petitioner proposes that the New Debt be issued through private placement, competitive bidding, and/or negotiated sale, or some combination of these arrangements.

Mr. Deter testified that due to the uncertainty of the bond market, it would not be appropriate or in the public interest for the Company to consummate the sale only through competitive bidding procedures. The Company considers having the private placement or negotiated offering options to be important due to the large size of the Applicant's proposed offerings, competitive bidders may build a safety margin into their competitive bids to reduce their resale risk. Mr. Deter said this increases the cost to the Company of issuing the Debt. Whereas with a private placement or negotiated offering, the institutions have already pre-marketed the debt and do not have to build in a safety margin. Also, in order to adjust to rapidly changing market conditions, the Company may want the greater flexibility associated with a private placement or negotiated offering to adjust its timing and terms.

Except as otherwise noted herein, the terms of the proposed transactions will be the same as those in the transactions authorized in Docket 95-0419.

Mr. Deter testified that Petitioner agrees to pay a statutory fee of \$9,155 to the Commission pursuant to Section 6-108 of the Act. The applicable fee applies to the entire \$150,000,000 amount of New Debt and reflects the percentage of Petitioner's net property located in Illinois, or 3.0516%.

Financial Exhibits; Capitalization Ratios; Staff Recommendation

Petitioner introduced financial exhibits, including a Capital Structure, Statement of authorized and issued capital, balance sheet and Capitalization Ratios as of December 31, 1997. (GTE Ex. A, B and C) The balance sheet and capitalization ratios are also presented on a pro forma basis giving effect to the issuance and sale of the New Debt.

Petitioner's capitalization ratios as of December 31, 1997 were short-term debt of 8.28%, long-term debt of 33.12%, preferred stock of 0.17%, and common equity of 59.27%. Upon giving effect to the issuance of \$150 million of New Debt and \$75 million of remaining authority authorized by Order 95-0419, the retirement of short-term debt of approximately \$183 million, and the retirement of approximately \$4 million of current maturities of long-term debt during 1998, Petitioner's capitalization ratios would be short-term debt of -1.76% (net of short-term notes receivable), long-term debt of 43.48%, preferred stock of 0.02% and common equity of 59.22%.

At the hearing, Mr. Ed Bliler of the Commission's Financial Analysis Division recommended that the Petitioner's proposed financing be approved.

Commission Findings and Ordering Paragraphs

The Commission, having considered the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) Petitioner is a corporation organized and existing under and by virtue of the laws of the State of Virginia, is duly authorized to conduct business as a foreign corporation within the State of Illinois, is engaged in the business of rendering telecommunications service to the public in the State of Illinois, and is a telecommunications carrier as defined in Section 13-202 of the Act;
- (2) the Commission has jurisdiction over the Petitioner and the subject matter of this proceeding;
- (3) the recitals of fact set forth in the prefatory portion of this order are supported by the evidence of record and are hereby adopted as findings of fact;
- (4) in view of the Commission's policy and practice of maintaining continuing surveillance of the books and records of the Petitioner, it is not deemed necessary for purposes of this proceeding to make a physical valuation of Petitioner's property;
- (5) approval should be granted to Petitioner for the issuance and sale of up to \$150,000,000 of New Debt, in one or more series, with maturities of not greater than 40 years, under the terms of an Indenture in substantially the form of that introduced into evidence as Exhibit I;
- (6) the proceeds to be received from the sale of the New Debt are reasonably required for the purposes of retiring short-term debt of approximately \$183 million, retiring approximately \$4 million of current maturities of long-term debt during 1998, funding the Company's on-going operations and construction program; with any remaining proceeds from the sale of the New Debt should be deposited to the benefit of Petitioner's Treasury;
- (7) subject to the terms and conditions of this Order, the prayer of the petition may be reasonably granted and the public will be inconvenienced thereby.

IT IS THEREFORE ORDERED that:

A. Approval is granted to Petitioner to:

- (1) issue and sell up to \$150,000,000 aggregate principal amount of New Debt, through competitive bidding, negotiated sale, or sale on a private placement basis at a negotiated price, in one or more series, with maturities not to exceed 40 years, under the terms of the Indenture, substantially in the form of Exhibit I.

B. Approval is granted upon the following conditions:

- (1) proceeds realized from the sale of the New Debt shall be used only for the purposes stated in Finding (6) of this order;

- (2) Petitioner, before issuing any of the New Debt, shall cause the following to be placed on the face thereof:

ILLINOIS COMMERCE COMMISSION

Identification No. 6093

- (3) without further order of this Commission, none of the New Debt herein authorized shall be issued after December 31, 2000.
- C. Petitioner shall file reports as required by 83 Ill. Adm. Code 240 relative to the issuance and sale of the New Debt and application of the proceeds thereof.
- D. Petitioner is charged 20 cents for every \$100 of the \$150,000,000 indebtedness authorized by this order times the percentage of Petitioner's operating properties in the State of Illinois, or 3.0516%. Such charge, amounting to \$9,155, shall be paid to the Illinois Commerce Commission, Public Utility Fund, for deposit in the State Treasury, no later than 30 days after service of this order.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 20th day of May, 1998.

(SIGNED) DAN MILLER

Chairman

(SEAL)