

Decision No. 37710

**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of PACIFIC GAS AND ELECTRIC COMPANY, a corporation, for an order of the Railroad Commission of the State of California authorizing applicant to issue \$80,000,000 principal amount of its First and Refunding Mortgage Bonds, Series M, 3%, due December 1, 1979, and to use the proceeds for the purposes specified in this petition, etc.

Application  
No. 26584

R. W. DuVal, Robert H. Gerdes and Wm. B. Bosley,  
for applicant.

John Francis Neylan, for Halsey Stuart & Co., Inc.,  
Intervenor.

Herman Phleger and James S. Moore, Jr., for 22 In-  
vestment Banking Firms.

Jesse H. Steinhart, for Investment Bankers Associa-  
tion of America, California Group.

Henry D. Costigan of McCutcheon, Thomas, Mathew,  
Griffiths & Greene, for California Water Service  
Company and San Jose Water Works.

BY THE COMMISSION:

O P I N I O N

Pacific Gas and Electric Company has filed an appli-  
cation pursuant to Section 52 of the Public Utilities Act for  
permission to issue and sell at not less than the face amount

thereof, plus accrued interest, \$80,000,000 of its First and Re-funding Mortgage Bonds, Series M, 3%, due December 1, 1979, for the purpose of obtaining funds to pay in part 4% bonds now outstanding. Applicant further asks permission to issue and deliver temporary bonds pending the preparation and delivery of definitive bonds. It further requests permission to deviate in the manner hereafter stated from the uniform systems of accounts prescribed by the Commission.

A hearing was held on this application by the Commission en Banc on March 9 and March 10.

Applicant is a corporation organized and existing under and by virtue of the laws of California. It is a public utility engaged, principally, in the business of generating, purchasing, distributing and selling electric energy for domestic, commercial, industrial, agricultural and municipal purposes, and of purchasing, transmitting, distributing and selling natural gas, for domestic, commercial and industrial purposes, throughout a large part of the northern and central parts of the State of California. It is also engaged in the business of distributing and selling water and producing and selling steam heat. Its operating revenues for 1944 are reported at \$151,773,235.78, segregated as follows:

Electric department	\$107,602,689.79
Gas department	43,304,999.38
Water and irrigation department	522,741.73
Steam sales department	<u>342,804.88</u>
Total	\$151,773,235.78

For 1944 applicant reports a gross income of \$34,500,270.76. This is the amount applicant had available for the payment of interest, for amortization of bond discount

and expense, for other income deductions, dividends and surplus.  
The \$34,500,270.76 was distributed as follows:

## A. Income deductions:

Interest on long term debt	\$11,871,677.39
Other interest	518,777.70
Amortization of debt discount and expense	767,348.58
Taxes assumed on interest	3,286.24
Interest charged to construction - credit	970,203.52
Miscellaneous income deductions	272,045.31
<b>Total income deductions</b>	<b>\$12,462,931.70</b>
B. Preferred stock dividends	8,413,092.14
C. Common stock dividends	12,523,898.00
D. Surplus	1,100,348.92
<b>Total</b>	<b>\$34,500,270.76</b>

Applicant has outstanding stock of the par value of  
\$301,154,550, segregated as follows:

<u>Class</u>	<u>Shares</u>	<u>Par Value</u>
Common	6,261,357	\$156,533,925
Preferred - 6% Cumulative	4,211,662	105,291,550
" 5 1/2% "	1,173,163	29,329,075
" 5% "	400,000	10,000,000
<b>Total</b>	<b>12,046,182</b>	<b>\$301,154,550</b>

Applicant has outstanding bonds of the principal  
amount of \$299,758,500. The amount consists of the following  
issues:

<u>Name of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
First and Refunding Mortgage - Series G	4%	12-1-64	\$ 84,193,000
First and Refunding Mortgage - Series H	3-3/4%	12-1-61	2,487,000
First and Refunding Mortgage - Series I	3 1/2%	6-1-66	49,927,000
First and Refunding Mortgage - Series J	3%	12-1-70	19,273,000
First and Refunding Mortgage - Series K	3%	6-1-71	23,967,000
First and Refunding Mortgage - Series L	3%	6-1-74	111,717,000
Unifying and Refunding Mortgage - Series B	6%	3-1-52	8,194,500
<b>Total</b>			<b>\$299,758,500</b>

The Series H, 3-3/4% bonds have been called for redemption. The Unifying and Refunding Bonds were issued by San Joaquin Light and Power Corporation and their payment assumed by applicant. They are noncallable.

Applicant intends to redeem on June 1, 1945, all of its First and Refunding Mortgage bonds of Series G of which, as shown above, \$84,193,000 are outstanding in the hands of the public. In addition, \$30,000 principal amount of said Series G bonds are in applicant's treasury. The said bonds are redeemable at 105 per cent of their face amount and accrued interest to the date of redemption. The payment of the principal and premium calls for an expenditure of \$88,434,000. To provide itself with part of the funds needed, applicant asks permission to issue and sell \$80,000,000 of First and Refunding Mortgage Bonds, Series M, 3%, dated December 1, 1944, and due December 1, 1979. The interest is payable semi-annually on June 1 and December 1. The payment of the bonds will be secured by applicant's first and refunding mortgage. They will be subject, upon notice, to redemption, "in whole or from time to time in part, at the option of the Pacific Company, for other than sinking fund purposes, on the first day of any calendar month, and are subject to redemption for sinking fund purposes on any first day of June or first day of December, in each case, at the principal amount thereof and accrued interest thereon, plus a premium on such principal amount of -

- 11%, if redeemed on or before December 1, 1946;
- 10%, if redeemed thereafter and on or before December 1, 1950;
- 9%, if redeemed thereafter and on or before December 1, 1955;
- 8%, if redeemed thereafter and on or before December 1, 1960;

7%, if redeemed thereafter and on or before December 1, 1963;  
 6%, if redeemed thereafter and on or before December 1, 1965;  
 5%, if redeemed thereafter and on or before December 1, 1967;  
 4%, if redeemed thereafter and on or before December 1, 1969;  
 3½%, if redeemed thereafter and on or before December 1, 1970;  
 3%, if redeemed thereafter and on or before December 1, 1971;  
 2½%, if redeemed thereafter and on or before December 1, 1972;  
 2%, if redeemed thereafter and on or before December 1, 1974;  
 1½%, if redeemed thereafter and on or before December 1, 1975;  
 1¼%, if redeemed thereafter and on or before December 1, 1976;  
 1%, if redeemed thereafter and on or before December 1, 1977;  
 ½ of 1% if redeemed thereafter and on or before December 1, 1978  
 and thereafter without premium."

For accounting purposes, the Commission has heretofore, in some instances when authorizing applicant to issue bonds for the purpose of paying outstanding bonds, permitted applicant to carry forward the unamortized bond discount, expense and premium applicable to the bonds redeemed. Applicant reports that as of June 1, 1945, when it will redeem its Series G bonds the unamortized bond discount, expense and premium applicable to said Series G bonds, associated and related issues, will amount to \$7,109,839.90. Applicant asks permission to amortize said \$7,109,839.90 on or before December 1, 1979, the maturity date of said Series M bonds. To the \$7,109,839.90 will be added the premium paid on said Series G bonds. The net premium received upon the sale of said Series M bonds will be credited to Account 240,-Unamortized premium on bonds and amortized during the life of said Series M bonds. The order will grant applicant permission to amortize said bond discount, expense and premium,

subject to the condition that we reserve the right to withdraw the permission so granted and further to determine hereafter whether the charges necessary to amortize said bond discount, expense and premium should be included in the cost of money to applicant.

Applicant estimates that through the bond refunding its federal taxes based on income will be reduced by about \$4,287,000. It proposes to account for this sum by crediting a part to unamortized bond discounts and expense by transferring part of it to "Taxes Accrued" and part to "Pension Reserve." The accounting disposition of said approximate sum of \$4,287,000 will be the subject matter of a supplemental order.

The issue whether the said Series M bonds should be sold at competitive bidding is raised by the petition of intervention filed by Halsey Stuart & Co., Inc. At the hearing intervenor made applicant an offer to buy said Series M bonds at a price of not less than 105.6% of their face value and accrued interest and gave assurance that if the bonds are sold at competitive bidding he will bid not less than 105.6% and accrued interest. It was argued by Counsel for certain Investment Banking Firms that if the Commission directs applicant to sell said Series M bonds by competitive bidding it would establish a policy without giving all parties interested an opportunity to present their views. We are not in this matter considering competitive bidding from the standpoint of a general policy to be applicable to all utilities under our jurisdiction. It is an issue in this application. We have considered the evidence and argument and believe that applicant should invite publicly sealed, written proposals for the purchase or underwriting of said Series M bonds. The proposals received should be opened at such time and place as is specified in the invitation. The duly authorized representative of any person making any such proposal shall be entitled to be present at the opening

of such proposals and to examine each proposal submitted. Applicant should reserve the right to reject all proposals. Upon being advised of the price at which applicant desires to sell said Series M bonds the Commission will enter a supplemental order in this application.

O R D E R

Pacific Gas and Electric Company having applied to the Railroad Commission for permission to issue and sell \$80,000,000 of First and Refunding Mortgage Bonds, Series M, 3%, due December 1, 1979, and for such other authority as indicated in the foregoing Opinion, and the Commission having considered applicant's requests and it being of the opinion that Pacific Gas and Electric Company shall publicly invite sealed, written proposals for the purchase or underwriting of said Series M bonds; that the money, property or labor to be procured or paid for through such issue is reasonably required by applicant for the purposes herein specified; that the expenditures for such purposes, other than the use of the accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions of this order.

IT IS HEREBY ORDERED as follows:

1. Pacific Gas and Electric Company may, after the effective date hereof and on or before June 15, 1945, issue and sell at the price fixed by a supplemental order, \$80,000,000 principal amount of its First and Refunding Mortgage Bonds,

Series M, 3%, due December 1, 1979, said bonds to be in the forms prescribed in the resolution of applicant's Board of Directors on file in this application as Exhibit "C". Pacific Gas and Electric Company shall use the proceeds (exclusive of accrued interest) derived from the issue and sale of said bonds, to pay in part the cost of redeeming on or before June 1, 1945, its outstanding First and Refunding Mortgage Bonds, Series G; 4%, due December 1, 1964. The accrued interest may be used by applicant for general corporate purposes. Pending the preparation and delivery of definitive bonds, Pacific Gas and Electric Company may execute, authenticate and deliver in lieu of such definitive bonds, temporary bonds, such temporary bonds to be issued and sold under the same terms and conditions as applicant is authorized to issue and sell definitive First and Refunding Mortgage Bonds of Series M.

2. The authority herein granted will become effective when the Railroad Commission has entered a supplemental order fixing the price at which Pacific Gas and Electric Company may sell said Series M bonds and when Pacific Gas and Electric Company has paid the fee prescribed by Section 57 of the Public Utilities Act.

3. Pacific Gas and Electric Company may deviate from the uniform systems of accounts prescribed by the Railroad Commission for electric corporations, gas corporations and water corporations, and amortize on or before December 1, 1979 the discount, expense and premium of about \$7,109,839.90 plus the premium paid upon the redemption of said Series G, 4%, bonds less such savings of taxes based on income hereafter



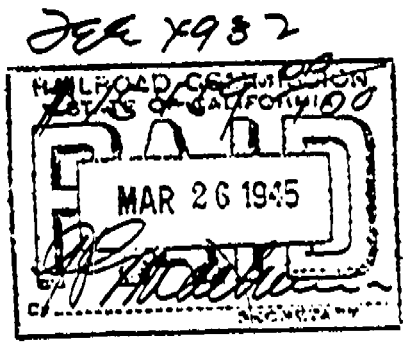
credited to unamortized bond discount and expense provided that the Commission reserves the right to withdraw the permission herein granted to deviate from said uniform system of accounts, and to determine hereafter whether the charges necessary to amortize said bond discount, expense and premium should be included in the cost of money to Pacific Gas and Electric Company.

4. Pacific Gas and Electric Company shall file with the Railroad Commission within thirty (30) days after the issue and sale of said bonds, a complete copy of its Registration Statement filed with the Securities and Exchange Commission, including the exhibits referred to therein, except such exhibits as have previously been filed with the Railroad Commission.

5. Pacific Gas and Electric Company shall file with the Railroad Commission a report or reports required by the Commission's General Order No. 24-A, which Order insofar as applicable is made a part of this Order.

6. Pacific Gas and Electric Company shall, on or before September 30, 1945, file with the Railroad Commission a statement showing in detail the expenses incurred because of the issue and sale of said Series M, 3%, Bonds and the redemption of said Series G, 4%, Bonds.

Dated at San Francisco, California, this 12<sup>th</sup> day of March, 1945.



*L. Harold Anderson*  
*Justin B. Crabb*  
*Richard L. Tachse*  
*Franklin Clark*  
*Wesley Powell*  
Commissioners