

Decision No. 38407

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 \$49,000,000 principal amount of its First and Refunding Mortgage Bonds, Series N, 3%, due December 1, 1977, and to use the proceeds for the purposes specified in this petition, etc.

Application No. 26985

ORIGINAL

BY THE COMMISSION:

SECOND SUPPLEMENTAL OPINION

By Decision No. 38297, dated October 16, 1945, and Decision No. 38312, dated October 17, 1945, in the above entitled matter, the Railroad Commission authorized Pacific Gas and Electric Company, to issue and sell, at 104.7999% of face value plus accrued interest, \$49,000,000 of first and refunding mortgage bonds, Series N, 3%, due December 1, 1977, and to use the proceeds to pay the cost of redeeming \$49,000,000 of first and refunding mortgage bonds, Series I, 3 1/2%, due June 1, 1966.

The company reports that as of December 31, 1945, the net discount, expense and premiums on the books related to bonds refunded by the \$49,000,000 of Series I bonds, and the issue of such bonds will amount to \$709,800.85 and that it will be compelled to expend \$2,475,000 in premiums and expenses to pay such bonds, the two items aggregating \$3,184,800.85. It estimates the net premium to be received through the issue and sale of the new Series N bonds at \$2,172,308. In addition, it estimates a reduction in its federal excess profit taxes of \$2,131,186.05 resulting from the refunding of its Series I bonds.

It is the company's proposal to charge to Account 140, Unamortized debt discount and expense, the premium and expenses of \$2,475,000 to be expended in redeeming the Series I bonds and to credit against such sum, a portion--\$302,692--of the estimated reduction in the excess profits taxes. The balance, together with the \$709,800.85 now in Account 140, a total of \$2,882,108.85 will, if applicant's proposal is approved, be amortized by charges to income over the life of the new Series N bonds, that is, on or before December 1, 1977. The net premium of \$2,172,308 to be received through the issue of the new Series N bonds will be credited to Account 240, Unamortized premium on debt, and written off over the life of said bonds. It will be noted that the debit balance in Account 140 will exceed the credit balance in Account 240 by \$709,800.85.

As stated, applicant estimates the total reduction in its federal excess profits taxes at \$2,131,186.05 of which it proposes to credit \$302,692 to Account 140. The remaining \$1,828,494.05 it proposes to credit to its Reserve for Pensions.

On this point the testimony of applicant's comptroller shows that the company has been, and is, accumulating a reserve for the payment of pensions for past service, that is, service with the company prior to January 1, 1937; that as of August 31, 1945, the balance in the reserve amounted to \$10,720,508.86; and that in his opinion, as of December 31, 1944, the actuarial reserve requirement was approximately \$13,000,000 on the graded retirement basis. Reference was made by the comptroller to Exhibit 53 introduced in Case No. 4749, a gas rate proceeding now pending before the Commission, in which a Commission engineer estimated the pension reserve requirement as of

December 31, 1944, at \$12,917,739 on the graded retirement basis⁽¹⁾ and at \$13,710,041 on the normal retirement basis. The presently proposed addition to the reserve of the tax savings of \$1,828,494.05 would bring the total balance up to \$12,549,002.91⁽²⁾ as of August 31, 1945.

We have considered applicant's proposed accounting treatment of the several items referred to herein and for accounting purposes and convenience will indicate our approval with certain modifications. So far as the entries in Accounts 140 and 240 are concerned, it should be understood that no permission is being granted applicant to set-off the debit balance associated with the Series I bonds against the credit balance associated with the Series N bonds. We believe the amounts charged and to be charged to Account 140 in connection with the Series I bonds should be amortized on or before June 1, 1966, the stated maturity date of such Series I bonds.

As to the disposition of the estimated reduction of \$2,131,186.05 in the federal excess profits taxes, we do not believe that this non-recurring reduction is an operating expense. We believe it should be shown in Account 507-A as "Tax Saving on Bond Refunding" with an appropriate foot-note showing the amount transferred to bond discount and the amount to Reserve for Pensions. It should be understood that in this decision we are not passing on the reasonableness or adequacy of the balance in the reserve and the rate and method of accumulation, and are in no way modifying our position with regard to so-called past pension liabilities of utilities.

(1) According to the witness, the graded retirement basis contemplates that certain employees will remain in the service of the company after reaching the retirement age specified in the pension plan.

(2) The Commission by Decision No. 37815, dated April 17, 1945, directs Pacific Gas and Electric Company to transfer to its pension reserve such portion of \$1,719,856.56 credited to Account 228, Taxes accrued, to cover an alleged deficiency in its income and excess profits taxes for the years 1941-1942, as remains after the final determination of the amount of additional taxes due. When an agreement is reached on the amount of additional taxes due, it may be necessary to amend said Decision No. 37815 and apply the excess credited to said Account 228 to some other purpose.

THIRD SUPPLEMENTAL ORDER

The Railroad Commission having given further consideration to this application, particularly in so far as it involves the accounting disposition of certain items, as indicated in the foregoing opinion, and good cause appearing;

IT IS HEREBY ORDERED as follows:

1. Pacific Gas and Electric Company may charge to Account 140, Unamortized debt discount and expense, the premiums required to be paid by it in redeeming the \$49,000,000 of Series I bonds and the estimated expenses of redeeming said Series I bonds, and may credit to such account the sum of \$302,692 representing, in part, estimated reductions in federal excess profits taxes and amortize over the period ending June 1, 1966, the resulting net debit balance.

2. Pacific Gas and Electric Company may amortize, on or before June 1, 1966, the amount now charged to Account 140 associated with the Series I bonds and the bonds heretofore refunded by said Series I bonds, it being understood that the Commission reserves the right to determine in the future whether the charges necessary to amortize said premiums, discount and expenses referred to in paragraphs 1 and 2 of this order should be included in the cost of money to applicant.

3. Pacific Gas and Electric Company may account for the non-recurring reduction during 1945 in federal excess profit taxes, estimated by it at \$2,131,186.05, by crediting \$302,692 as hereinabove provided to Account 140, and by crediting the remainder, \$1,828,494.05, or such other sum remaining after final determination and settlement of its liability for such taxes, to Reserve for Pensions.

4. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 13th day of
November, 1945.

Harold Anderson
Justus F. Craven
Frank C. Clegg
James H. Luce
Commissioners