

pensions the reduction, estimated at \$1,100,000, in its federal excess profits taxes for the year 1945, to result from the funding of its proposed Retirement Plan Covering Services Prior to January 1, 1937.

The proposed bond issue of \$13,000,000 is prompted by applicant's desire to establish a trust fund which, together with the annual interest credit thereto, will be sufficient to meet all retirement incomes (pensions) for past services of its employees, and place applicant in a position to guarantee payment to employees of retirement incomes for such past services. The record shows that since 1916 applicant has made provision for pension payments to retiring employees. This plan was amended October 1, 1921. In 1937 it adopted a retirement plan, effective as of January 1, 1937, to provide retirement incomes for eligible employees based on service after that date. In this plan applicant stated that it hopes and expects to provide, independently of the 1937 plan, and wholly at its own expense, income for past service for those who join the plan, but such income will be entirely dependent upon such authority as may from time to time be granted by the Board of Directors of applicant. Recently applicant adopted a Retirement Plan Covering Services Prior to January 1, 1937. Subject to the conditions hereinafter stated, it will make the plan effective as of December 1, 1945. A copy of the plan is on file in this Application as Exhibit "C". The plan obligates applicant to pay to the trustee under the pension fund \$13,600,000. If this amount, together with the income therefrom, proves insufficient to pay the pensions provided for under the plan, applicant will make additional contributions to the trustee. The actuarial liability for past

service benefits provided under the plan, as of December 31, 1944, computed on a 3% basis, assuming retirement of employees at normal retirement date, is estimated at \$14,679,364. The actual liability cannot be determined at this time.

Applicant as part of its proposed pension plan, will execute a trust agreement with the Crocker First National Bank of San Francisco as trustee. A copy of such agreement is on file as Exhibit "D". The trustee will hold and disburse the trust funds and the income therefrom, in accordance with the plan and trust agreement.

Applicant's Executive Committee of its Board of Directors has approved the plan and the trust agreement, subject to the condition that the plan shall become effective only if and when (a) the Commissioner of Internal Revenue shall have approved the plan as qualifying under Section 165(a) of the Internal Revenue Code and, (b) this Commission shall authorize the sale by applicant to said Crocker First National Bank of San Francisco as trustee under the proposed trust agreement, \$13,000,000 principal amount of applicant's First and Refunding Mortgage Bonds, Series O. The testimony shows that applicant is taking all necessary action to qualify the plan as a tax exempt trust.

Applicant had, on October 31, 1945, a credit of \$10,710,211.78 to its reserve for pensions for past services. It will further credit to such reserve about \$1,800,000 representing a nonrecurring reduction in federal excess profits taxes resulting from the refunding of its \$49,000,000 Series I, 3½% bonds, and, if authorized by the Commission to do so, will credit to said reserve about \$1,100,000 of nonrecurring saving in

federal taxes provided the proposed pension plan qualifies under Section 165(a) of the Internal Revenue Code.

The testimony shows that applicant's Executive Committee of its Board of Directors adopted a resolution (Exhibit "F") authorizing the execution, authentication, issue and delivery of First and Refunding Mortgage Bonds of a new series to be designated Series O, of the aggregate principal amount of \$13,000,000. The bonds will be dated December 1, 1945, and mature December 1, 1975. They bear interest at the rate of 3% per annum, payable semi-annually on June 1 and December 1 of each year. They are, subject to the conditions set forth in said resolution, redeemable at the principal amount thereof and accrued interest. Applicant intends to sell the \$13,000,000 of bonds at par and accrued interest to Crocker First National Bank of San Francisco, trustee under its proposed trust agreement. Applicant will use the proceeds from the sale of the bonds to reimburse its treasury because of income expended for capital purposes. In this connection, applicant reports in Exhibit "G" that it has expended to August 31, 1945, \$178,031,617.11 for capital purposes which have not been financed through the issue of stock, bonds, notes or other evidences of indebtedness. The order herein will authorize applicant to issue said \$13,000,000 of bonds, but it should not be construed as a finding that all of said \$178,031,617.11 represents proper charges to fixed capital accounts or that applicant's treasury should be reimbursed for all of said expenditures.

O R D E R

The Pacific Gas and Electric Company having applied to the Railroad Commission for permission to issue and sell \$13,000,000 principal amount of its First and Refunding Mortgage Bonds, Series O, 3%, due December 1, 1975, and for such other authority as indicated in this application; a public hearing having been held before Examiner Fankhauser and the Commission having considered the evidence submitted at such hearing and it being of the opinion that the money, property or labor to be procured or paid for through the issue of said \$13,000,000 of bonds is reasonably required by applicant for the purpose herein stated; that such purpose, other than the use of accrued interest, is 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, therefore,

IT IS HEREBY ORDERED as follows:

1. Pacific Gas and Electric Company may, after the effective date hereof and on or before March 1, 1946, issue and sell to the Crocker First National Bank of San Francisco, trustee under the trust fund mentioned in the foregoing opinion when established, at par and accrued interest, \$13,000,000 of its First and Refunding Mortgage Bonds, Series O, 3%, due December 1, 1975, said bonds to be in the form set forth in the resolution on file in this application as Exhibit "F". Pacific Gas and Electric Company shall use the proceeds, exclusive of accrued interest, derived from the issue and sale of said bonds to

reimburse in part its treasury on account of capital expenditures made on or prior to August 31, 1945. 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 O.

2. Pacific Gas and Electric Company may account for its non-recurring reduction, during 1945, in federal excess profits taxes, estimated at \$1,100,000, because of putting into effect its proposed Retirement Plan Covering Services Prior to January 1, 1937, by crediting the same to its reserve for pensions.

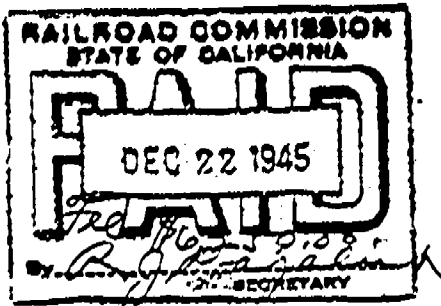
3. The authority herein granted will become effective when Pacific Gas and Electric Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Six Thousand Two Hundred and Fifty (\$6,250.00) Dollars.

4. Within thirty (30) days after the issue of said \$13,000,000 of Series O bonds, Pacific Gas and Electric Company shall file with the Railroad Commission two certified copies of its Retirement Plan Covering Services Prior to January 1, 1937, and two certified copies of the trust agreement between it and Crocker First National Bank of San Francisco, trustee, to which agreement reference is made in the foregoing opinion. It shall also file with the Commission a report required by the Commission's General Order No. 24-A, which order, insofar as

applicable, is made a part of this order.

Dated at San Francisco, California, this 21st day
of December, 1945.

Harold Anderson
Justin F. Caseman
Ernest F. Sweet
Harold F. Huls
Commissioners



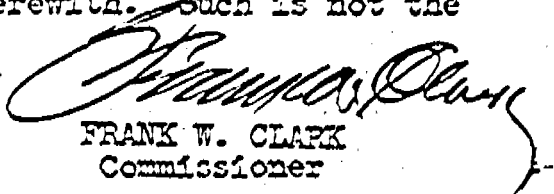
CONCURRING OPINION

I have joined the other Commissioners in approving this opinion and order in its present form because I am anxious that this pension plan be established on a funded basis at the earliest possible date. The Commission's decision in all respects complies with the application of the utility as it was presented. However, I do feel obliged to express the following thoughts in connection therewith.

This order authorizes the utility to issue and sell at par to a certain bank \$13,000,000 aggregate principal amount of first mortgage 3% bonds. I can see no reason for the Commission treating this bond issue any differently than it would any other bond issue that is to be marketed by this or any other utility. I believe these bonds should be sold in a manner as would make available the proceeds at the lowest possible cost to the utility. I am not convinced that this is being accomplished in this case under the indicated procedure.

I also must say that I believe that where any regulated utility establishes a pension plan for its employees, all steps taken in connection therewith should be such as to result in the greatest benefit to the employees at the lowest possible cost to the utility and in turn to its rate payers. I believe this could best be accomplished by requesting proposals from various insurance companies and financial institutions throughout the country who specialize in this field and by selecting the most favorable proposition that is offered.

The trust agreement between the Pacific Gas and Electric Company and the Crocker First National Bank, referred to as the trustee, makes provision for the control of the investment of the trust funds in this matter resting with the company. I believe that the trustee should be responsible for the investment of such funds and liable for any diminution in connection therewith. Such is not the case under this particular trust agreement.


FRANK W. CLARK
Commissioner