

**ORIGINAL**

Decision 84 09 008 SEP 6 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND )  
 ELECTRIC COMPANY to issue, sell and )  
 deliver one or more series of its )  
 First and Refunding Mortgage Bonds, )  
 debentures, promissory notes, and/or )  
 other evidences of indebtedness in )  
 the aggregate principal amount not )  
 exceeding \$150,000,000 or, in the )  
 alternative, to guarantee )  
 obligations of another in respect )  
 of the issuance of securities, in )  
 connection with pollution control )  
 and solid waste disposal financings; )  
 for an exemption from the Competi- )  
 tive Bidding Rule; and to sell )  
 utility plant. )

Application 84-07-002  
(Filed July 2, 1984)

O P I N I O N

Pacific Gas and Electric Company (PG&E) requests authority, under Public Utilities (PU) Code Sections 816 through 818, 830, and 851, for the following:

1. To issue and sell to the California Pollution Control Financing Authority (the Authority), on a negotiated basis, one or more series of PG&E's First and Refunding Mortgage Bonds (New Bonds), debentures, notes, and/or other evidences of indebtedness (collectively referred to as Debt Securities) in the aggregate principal amount of \$150,000,000, or, in the alternative, to unconditionally guarantee or otherwise secure the Authority's obligations in respect of its issuance of debt under the terms of an agreement to be executed between PG&E and the Authority;

2. To be exempted from the Commission's competitive bidding requirements those Debt Securities sold through negotiated public offerings or negotiated private placement;
3. To sell to the Authority certain pollution control and solid waste disposal facilities previously acquired or constructed by PG&E;
4. To use the net proceeds from the issue of the proposed Debt Securities (exclusive of accrued interest, if any) to partially reimburse PG&E's treasury for monies expended for these pollution control and solid waste disposal facilities; and
5. To use the accrued interest (if any) received in connection with the issue of PG&E's Debt Securities for general corporate purposes.

Summary of Decision

This decision grants PG&E the authority requested in its application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of July 5, 1984. No protests have been received.

PG&E, a California corporation, operates as a public utility under the jurisdiction of this Commission. PG&E generates, purchases, transmits, and sells electricity and purchases, transports, distributes, and sells natural gas to 47 counties in central and northern California. The company also provides a small amount of incidental water and steam services.

For the 12 months ended March 31, 1984, PG&E reported total operating revenues of \$6,427,452,000 and net income of \$845,384,000 as shown in its Income Statement submitted to the Commission on July 19, 1984.

Shown as part of Exhibit A, attached to the application, is PG&E's Balance Sheet as of March 31, 1984 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$12,004,009,000
Gas Stored Underground- Noncurrent	11,114,000
Other Property and Investments	504,864,000
Current and Accrued Assets	1,468,593,000
Deferred Debits	<u>389,027,000</u>
Total	\$14,383,607,000
 <u>Liabilities and Equity</u>	
Common Equity	\$ 5,031,318,000
Preferred Stock	1,687,451,000
Long-Term Debt	5,327,185,000
Current and Accrued Liabilities	1,492,222,000
Deferred Credits	<u>845,431,000</u>
Total	\$14,383,607,000

PG&E proposes to engage in a California pollution control and solid waste disposal facility financing with the Authority by executing an installment sale agreement, loan agreement, financing agreement, or other security agreement, with the Authority, under which the Authority would issue and sell, one or more series of its bonds, notes, debentures, or other securities (collectively referred to as Authority Bonds) in an aggregate principal amount

up to \$150,000,000, plus accrued interest, to a group of underwriters who would ultimately market the Authority Bonds to the general public.

If an installment sale agreement is entered into, concurrently with the sale and delivery of the Authority Bonds, PG&E would sell to the Authority the pollution control and solid waste disposal facilities at a price equal to PG&E's estimated cost of acquisition or construction of those facilities. The Authority would reconvey title to those facilities to PG&E in consideration for PG&E's obligation to pay the amounts as may be required to pay principal of, premium (if any), and interest on the Authority Bonds and all expenses applicable to them.

In consideration of the conveyance back to PG&E of title to the facilities, PG&E would issue, sell, and deliver to the Authority up to \$150,000,000 aggregate principal amount of its Debt Securities, plus accrued interest, or, in the alternative, would guarantee or otherwise secure the Authority's obligations in respect of the Authority Bonds. The terms and conditions of the Debt Securities will be consistent with the terms and conditions of the Authority Bonds. Debt Securities may include one or more series of the New Bonds which will be issued in conformity with the provisions of, and secured by, PG&E's existing First and Refunding Mortgage, as amended by supplemental indentures.

The facilities to be financed include pollution control and solid waste disposal facilities at PG&E's Diablo Canyon Nuclear Power Plant. A description of the facilities is attached to the application as Exhibit B.

PG&E contemplates that the Authority Bonds will be issued in the form of long-term fixed rate securities. However, under certain market conditions, PG&E states that it may be advantageous to issue one or more series of the Authority Bonds in the form of floating rate short-term demand bonds, or notes, or some other variable interest rate debt instrument. With changes as market conditions might dictate, PG&E anticipates that the variable rate financing would be structured substantially as follows: The Authority Bonds would be nominally long-term instruments but would carry a short-term interest rate because of the existence of a periodic "put" option. The holders of the Authority Bonds would have the right to require that the Authority Bonds be redeemed by "putting" or placing the bonds for redemption on certain periodic dates, generally at 100% of the principal amount plus accrued interest. A Remarketing Agent would then remarket those Authority Bonds which had been redeemed. Because the interest rate on the Authority Bonds would be periodically reset based on a short-term tax-exempt index, any redeemed Authority Bonds could generally be remarketed at approximately their full principal amount. PG&E would have the option at a certain time, or times, to change from a

floating rate to a fixed rate for the remaining term of the Authority Bond. This financing method is substantially similar to that authorized in the Commission's recent decisions for Southern California Edison (Decision (D.) 83-11-066 dated November 22, 1983 in Application (A.) 83-10-48) and San Diego Gas and Electric Company (D. 84-01-043 dated January 19, 1984 in A. 83-11-45).

Sale of Utility Plant

If an installment sale agreement is entered into, PG&E would convey title to the facilities, subject to the lien of its First and Refunding Mortgage, to the Authority. The transfer of title to the facilities will be made for the purpose of complying with the applicable provisions of California Health and Safety Code sections. Title to the facilities shall be conveyed to PG&E as partial consideration for PG&E's issuance and sale of the Debt Securities to the Authority. The operation and control of the facilities conveyed to the Authority would remain with PG&E at all times.

Request for Exemption From Competitive Bidding

PG&E requests an exemption for the proposed issues and sales of the Debt Securities from the Commission's competitive bidding rule set forth in D.38614 dated January 15, 1946 in Case 4751 as amended by subsequent decisions. Rules adopted by the Commission in these decisions authorize this Commission to grant

exemptions from the competitive bidding requirements which the Commission has done from time to time upon a showing of compelling circumstances.

PG&E believes that compelling circumstances exist for requesting an exemption and alleges that the reasons set forth below are compelling and justify the issuance by the Commission of an order granting this exemption.

1. It is expected that the interest payable on the Authority Bonds will be exempt from all present federal income taxes and California taxes under existing statutes, regulations, court decisions, and rulings. As a result, the Authority Bonds will be sold at an annual interest rate substantially lower than that which would be realized if debt obligations were issued and sold directly by PG&E. The full amount of this cost savings will be passed on by PG&E to its ratepayers in future rate proceedings, and
2. Due to the statutory structure of the financing mechanisms of the Authority, competitive bidding for PG&E's Debt Securities is not possible. Therefore, the application of the Commission's competitive bidding requirement would not, in this proceeding, be in the best interests of PG&E or its ratepayers as it would preclude PG&E's from taking advantage of the benefits provided this type of financing.

The Commission has previously recognized this unique method of financing by exempting pollution control related debt issues from the competitive bidding requirements. We believe an exemption from the competitive bidding requirements is also appropriate in this case.

Use of Pollution Control and Solid Waste Disposal Bond Proceeds

Proceeds from the sale of the Debt Securities (exclusive of accrued interest) would be used to partially reimburse the treasury for monies expended for the pollution control and solid waste disposal facilities, and, thereafter, to repay a portion of outstanding short-term notes issued for temporary financing of these capital additions and improvements to PG&E's utility plant. Accrued interest (if any) would be used for general corporate purposes.

Capital Ratios

PG&E's capital ratios reported as of March 31, 1984 are shown below as recorded and as adjusted to give pro forma effect to the transactions that follow:

	<u>March 31, 1984</u>	<u>Pro Forma</u>
Long-Term Debt	43.8%	45.3%
Preferred Stock	14.1	13.6
Common Equity	<u>42.1</u>	<u>41.1</u>
Total	100.0%	100.0%

1. The proposed issuance of up to \$150,000,000 aggregate principal amount of PG&E's Debt Securities in connection with pollution control and solid waste disposal financings;
2. The sale of approximately 2,450,000 shares of Common Stock, \$5 par value, issued in connection with the Savings Fund Plan producing net proceeds of approximately \$32,400,000 during the second quarter of 1984 (D.82-08-013 and D.83-05-063 dated August 4, 1982 and May 18, 1983 in A.82-06-54 and A.83-04-31);



3. The sale of approximately 1,836,000 shares of Common Stock, \$5 par value, issued in connection with the Dividend Reinvestment and Common Stock Purchase Plan producing net proceeds of approximately \$24,000,000 during the second quarter of 1984 (D.93638 and D.83-05-063 dated October 20, 1981 and May 18, 1983 in A.60897 and A.83-04-31);
4. The sale of \$250,000,000 aggregate principal amount of the Series 84A Bonds on April 2, 1984 (D.83-09-072 dated September 30, 1983 in A.83-08-37); and
5. The retirement of \$20,281,000 principal amount of the Series X Bonds on June 1, 1984 (D.49975 dated April 27, 1984 in A.35361).

The Commission's Evaluation and Compliance Division has reviewed PG&E's construction budget and finds that the Debt Securities are necessary to reimburse PG&E's treasury for past expenditures for pollution control and solid waste facilities and to fund the planned future pollution control construction expenditures involving future improvements to the Radwaste storage vault, reracking the spent fuel pool, and to construct a chemical waste holding pond. Commission is not finding that the construction is necessary or reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or ratebase offset proceedings.

Findings of Fact

1. PG&E, a California corporation, operates as a public utility under the jurisdiction of this Commission.

2. The proposed agreement requiring PG&E to provide security for the purchasers of the Authority Bonds would not be adverse to the public interest.

3. The proposed Debt Securities would be for proper purposes.

4. The proposed sale and delivery of the pollution control and solid waste disposal facilities would not be adverse to the public interest.

5. The money, property, or labor to be procured or paid for by the Debt Securities is reasonably required for the purposes specified in the application.

6. The sale(s) of the proposed Debt Securities should not be required to be by competitive bidding.

7. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

The proposed Debt Securities are for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the Debt Securities may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable PG&E to proceed with its financings expeditiously.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) may issue, sell, and deliver on a negotiated basis to the California Pollution Control Financing Authority up to \$150,000,000 aggregate principal amount of its Debt Securities, including one or more series of its First and Refunding Mortgage Bonds, debentures, promissory notes, other evidences of indebtedness, or any of them, upon the terms and conditions substantially consistent with those set forth in, or contemplated by, the application, or in the alternative, to unconditionally guarantee or otherwise secure the California Pollution Control Financing Authority's (Authority) obligations in respect of issuance of debt under the terms of one or more agreements to be executed between PG&E and the Authority.
2. PG&E's proposed issue(s) of its Debt Securities are exempted from the Commission's competitive bidding requirements.
3. PG&E may sell and deliver to the Authority the pollution control and solid waste disposal facilities upon terms and conditions substantially consistent with those set forth in, or contemplated by, the application.

4. PG&E shall issue the Debt Securities, authorized by this order, for the purpose of acquiring property and for the purpose of construction, completion, extension, or improvement of its facilities, and/or to reimburse its treasury for monies actually expended for these purposes.

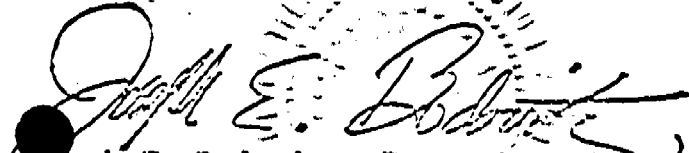
5. PG&E shall file the reports required by General Order Series 24.

6. The authority granted by this order to issue Debt Securities will be effective when PG&E pays \$81,000, the fee set by PU Code Section 1904(b). In all other respects, this order is effective today.

Dated SEP 6 1984 at San Francisco, California.

LEONARD M. GRIMES, JR.  
President  
VICTOR CALVO  
PRISCILLA C. GREW  
DONALD VIAL  
WILLIAM T. BAGLEY  
Commissioners

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

  
Joseph E. Bodovitz, Executive Director

