

CACD/KLE

Decision 87 12 002 DEC 9 1987**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND
 ELECTRIC COMPANY (i) (a) to issue,
 sell and deliver one or more series
 of its First and Refunding Mortgage
 Bonds, debentures, promissory notes
 and/or other evidences of indebted-
 ness in connection with domestic or
 Euromarket offerings; to guarantee the
 obligations of others in respect of
 the issuance of securities, the total
 aggregate principal amount of such
 issuances and guarantees not to exceed
 \$1,000,000,000; to issue shares of its
 Common Stock upon conversion of con-
 vertible debt securities or the exer-
 cise of equity warrants; and for an
 exemption from the Competitive Bidding
 Rule; and (b) for an order modifying
 Decision No. 87-03-069 dated March 25,
 1987, authorizing it to issue debt
 securities in an aggregate principal
 amount of \$1,000,000,000; (ii) for an
 order authorizing it to execute and
 deliver a Fourteenth Supplemental
 Indenture; and (iii) to issue one or
 more series of its preferred stock
 with an aggregate par value not ex-
 ceeding \$200,000,000.

Application 87-10-010
 (Filed October 13, 1987)

(U 39 M)

OPINIONSummary of Decision

This decision grants Pacific Gas and Electric Company
 (PG&E) the authority requested in the application.

PG&E seeks authority, under Public Utilities (PU) Code
 Sections 816 through 830 and 851, for the following:

1. a. To issue and sell, in one or more series,
 PG&E's First and Refunding Mortgage Bonds
 (Bonds), debentures, convertible debentures,
 debentures with warrants, promissory notes

and/or other evidences of indebtedness (to be collectively referred to as Debt Securities) and/or

- b. To unconditionally guarantee, or otherwise secure, the obligations issued by, or on behalf of, the state of California or any political subdivision (to be collectively referred to as the Authorities or individually as the Authority), including but not limited to the California Pollution Control Financing Authority and the California Alternative Energy Source Financing Authority, the proceeds of which are to be used to finance air and water pollution control facilities, sewage systems, solid waste disposal facilities, alternative energy facilities, facilities for the furnishing of local electric energy and gas, any other facilities qualifying for tax-exempt financing under the Internal Revenue Code, or any combination thereof (to be collectively referred to as the Qualified Facilities).

The total aggregate principal amount of these issues and/or guarantees shall not exceed the aggregate principal amount of \$1,000,000,000;

- 2. To sell this proposed issue or issues of Debt Securities under the Commission's Competitive Bidding Rule as set forth in Decision (D.)38614 dated January 15, 1946 in Case 4761, as amended by D.49941, D.75556 and D.81908 with certain modifications;
- 3. To issue shares of PG&E's common stock
 - a. In exchange for and upon retirement of the Debt Securities, or
 - b. In exchange for equity warrants upon exercise of these warrants as may be required from time to time;
- 4. To be relieved of the necessity of complying with the Commission's General Order Series 24 for the issuance of Medium Term Notes;

5. To execute and deliver a Fourteenth Supplemental Indenture;
6. To issue and sell, in one or more series, PG&E's preferred stock in public offerings, or private placements, having an aggregate par value not exceeding \$200,000,000 (to be referred to collectively as Preferred Stock);
7. To use the net proceeds (exclusive of accrued interest) for the purposes set forth in the application; and
8. To use any accrued interest received in connection with the issue or issues of Debt Securities for general corporate purposes.

A more complete statement of the authorization sought by PG&E is set forth in the application and summarized below.

Notice of the filing of the application appeared on the Commission's Daily calendar of October 16, 1987. No protests have been received.

PG&E, a California corporation, operates as a public utility subject to 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 June 30, 1987, PG&E reported it generated total utility operating revenues of \$7,462,871,000 and net income of \$870,657,000 as shown in its Income Statement shown as part of Exhibit A attached to the application.

Also shown as part of Exhibit A is PG&E's Balance Sheet as of June 30, 1987 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$16,065,574,000
Gas Stored Underground -	
Noncurrent	44,041,000
Other Property and Investments	737,682,000
Current and Accrued Assets	2,423,673,000
Deferred Debts	<u>1,847,587,000</u>
Total	\$21,118,557,000
<u>Liabilities and Equity</u>	
Common Equity	\$ 7,087,417,000
Preferred Stock	1,360,480,000
Long-Term Debt	7,776,337,000
Other Noncurrent Liabilities	467,622,000
Current and Accrued Liabilities	1,669,668,000
Deferred Credits	<u>2,757,033,000</u>
Total	\$21,118,557,000

As of June 30, 1987, PG&E's construction expenditures unreimbursed from the sale of securities amounted to \$7,733,673,000 as shown in Appendix B attached to the application.

Construction Budgets

PG&E's construction budgets for the years 1987, 1988 and 1989 amount to about \$4,205,000,000 estimated as of September 22, 1987. Major classifications of the total budgeted construction are summarized as follows:

<u>Component</u>	<u>1987</u>	<u>1988</u> (In Thousands)	<u>1989</u>
Electric Department	\$1,095,000	\$ 976,800	\$ 820,000
Gas Department	290,000	255,000	215,000
Other Common Plant	<u>220,000</u>	<u>190,000</u>	<u>165,000</u>
Total	\$1,605,000	\$1,421,800	\$1,200,000

The Commission Advisory and Compliance Division (CACD) has reviewed PG&E's construction budgets for calendar years 1987, 1988 and 1989 and has concluded that PG&E's proposed sale of securities, as requested in the application, is necessary to partially reimburse PG&E's treasury for capital additions and improvements or to fund the planned construction. However, PG&E is placed on notice, by this decision, that the Commission does not find that PG&E's construction program is necessary, or reasonable, for ratemaking purposes. These are issues normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

PG&E's cash requirements for calendar years 1988 and 1989, estimated as of August, 1987 is summarized as follows:

	<u>1988</u>	<u>1989</u>
Funds used/or Required for Construction Expenditures (Excluding AFUDC)	\$1,421,800,000	\$1,200,000,000
Maturities and Redemption of Long-Term Debt, Including Sinking Fund Requirements and Preferred Stock	1,278,500,000	184,000,000
Short-Term Debt Outstanding as of Beginning of Year	<u>83,000,000</u>	<u>2,000,000</u>
Subtotals	\$2,792,300,000	\$1,386,000,000
Less: Estimated Cash Available from Internal Sources	<u>1,100,300,000</u>	<u>914,000,000</u>
Additional New Funds Required from Outside Sources	\$1,692,000,000	\$ 472,000,000

The CACD has analyzed PG&E's cash requirements forecasts shown above and as indicated by the utility in its supplemental data sheets presented to the Commission and has concluded that internally generated funds will provide about 39.4% of the 1988 cash requirements, or \$1,100,300,000, and about 65.9% of the 1989 cash requirements, or \$914,000,000. The CACD concludes that PG&E's proposed sale of securities, as requested in the application, is necessary to help meet forecasted cash requirements. PG&E will need additional cash from outside sources of \$1,692,000,000 in 1988 and \$472,000,000 in 1989.

Capitalization Ratios

PG&E's capital ratios as of June 30, 1987 are shown below as recorded and as adjusted to give pro forma effect to the transactions that follow:

	<u>June 30, 1987</u>	<u>Pro Forma</u>
Long-Term Debt	46.3%	47.2%
Short-Term Debt	<u>2.8</u>	<u>8.6</u>
Total Debt	49.1	55.8
Preferred Stock	8.2	6.9
Common Equity	<u>42.7</u>	<u>37.3</u>
Total	100.0%	100.0%

Debt

1. Credit Facilities up to \$1,000,000,000 aggregate principal amount (authorized by D.86-08-051 dated August 18, 1986 in Application (A.)86-05-012). (Standby lines of credit with banks in the amount of \$650,000,000 have been executed but no borrowings have been made);
2. The proposed remaining issuance of long-term debt obligations from PG&E to the State of California, Department of Water Resources in an aggregate principal amount of \$100,088,827 (authorized in the amount of \$73,500,000 by D.82-10-008 dated December 1, 1982 in A.82-10-55 and as increased to \$136,000,000 in D.86-08-024 dated August 6, 1986);
3. The proposed remaining issuance of up to \$596,350,000 aggregate principal amount of Debt Securities (authorized by D.87-03-069 dated March 25, 1987 in A.86-12-066);
4. The retirement at maturity of \$29,373,000 aggregate principal amount of outstanding First and Refunding Mortgage Bonds during the remainder of 1987 and the year 1988;
5. The redemption of (a) \$101,300,000 aggregate principal amount to meet sinking fund requirements and (b) \$248,595,000 aggregate principal amount for other purposes, in the remainder of 1987 and the year 1988);

6. The redemption of \$198,980,000 aggregate principal amount of the following securities: (a) First and Refunding Mortgage Bonds, Series 82A and 82B, on July 1, 1987, (authorized by D.93738 dated November 13, 1981 in A.60927 and D.82-05-003 dated May 4, 1982 in A.82-03-33; (b) Pollution Control Bonds, Series 82A, on July 1, 1987 (authorized by D.82-03-004 dated May 4, 1982 in A.82-03-55) and (c) the 14.75% guaranteed debentures on August 15, 1987 (authorized by D.82-05-079 dated May 18, 1982 in A.82-03-34);
7. The issuance of \$250,000,000 aggregate principal amount of First and Refunding Mortgage Bonds, Series 87C, on July 16, 1987 (authorized by D.87-03-069 dated March 25, 1987 in A.86-12-066);
8. The issuance of the maximum amount of short-term Debt Securities (authorized by D.93788 dated December 1, 1981 in A.60949 and in D.87-09-056 dated September 23, 1987 in A.87-08-008) for a total of \$1,839,198,919 aggregate principal amount;
9. The proposed issuance of up to \$1,000,000,000 aggregate principal amount of Debt Securities requested in the application.

Preferred Stock

10. The proposed issuance of Preferred Stock with an aggregate par value not exceeding \$75,000,000 (authorized by D.84-07-116 dated July 18, 1984 in A.84-04-116);
11. The sinking fund requirements totaling \$30,000,000 aggregate par value in the remainder of 1987 and the year 1988);
12. The redemption of \$140,785,000 aggregate par value of (a) 12.80% Redeemable First Preferred Stock on July 31, 1987 (authorized by D.91982 dated July 2, 1980 in A.59678) and (b) 14.75% Redeemable \$100 First Preferred Stock on August 1, 1987

(authorized by D.82-05-080 dated May 18, 1982 in A.82-03-036);

13. The proposed issuance of Preferred Stock with an aggregate par value not exceeding \$200,000,000 requested in the application.

Common Stock

14. The issuance of 9,447,900 shares of common stock remaining in connection with the existing Shelf Registration Program having estimated proceeds of \$183,053,063 using a stock price of \$19.375 (authorized by D.85-08-098 dated August 21, 1985 in A.85-06-043);
15. The issuance of 10,243,789 shares of common stock remaining in connection with the Savings Fund Plan having estimated proceeds of \$198,473,412 using a stock price of \$19.375 (authorized by D.84-09-002 dated September 6, 1984 in A.84-07-044 and D.87-02-021 dated February 11, 1987 in A.86-12-067);
16. The issuance of 23,375,152 shares of common stock remaining in connection with the Dividend Reinvestment and Common Stock Purchase Plan having estimated proceeds of \$452,893,570 using a stock price of \$19.375 (authorized by D.85-02-034 dated February 6, 1985 in A.84-11-045 and D.87-08-035 dated August 26, 1987 in A.87-07-065); and
17. The issuance of 1,500,000 shares of common stock in connection with the Stock Option Plan having estimated proceeds of \$29,062,500 using a stock price of \$19.375 (authorized by D.86-10-043 dated October 16, 1986 in A.86-08-001).

The pro forma capitalization ratios, set forth above, do not include any future adjustments to retained earnings. Also, PG&E has stated that the maximum amount of short-term Debt Securities authorized by statute and Commission decision is unlikely to

be outstanding for any long period of time before being refinanced by other securities, which are listed in the pro forma capitalization ratios. In addition, due to the uncertain timing of the issuances of the debt, Preferred Stock and common stock previously authorized, and the future economic feasibility of redeeming, or refunding, of PG&E's debt and Preferred Stock securities, the pro forma capitalization ratios may not be achieved.

Summary of Proposed Debt Securities

PG&E seeks authority to issue and sell, in one or more series, Debt Securities and/or to unconditionally guarantee, or otherwise secure, the obligations of the Authorities in respect of their issuance of debt in connection with the tax-exempt financings of Qualified Facilities. Total issuance of Debt Securities and/or unconditional guarantees shall not exceed the aggregate principal amount of \$1,000,000,000.

The terms and conditions of the proposed Debt Securities, including the price, interest rate, maturity date, redemption provisions, sinking fund (if any) and other provisions will be determined by market conditions at the time of sale of each series of the Debt Securities.

Debt Securities may be sold by means of competitive bidding, negotiated public offerings or other offerings exempt from the Commission's Competitive Bidding Rule set forth in D.38614 dated January 15, 1946 in Case 4761, as amended by D.45941, D.75556 and D.81906 and further modified by Resolution F-616

dated October 1, 1986. If Debt Securities are sold by means of competitive bidding, the following procedures will be observed:

- a. PG&E will contact, by telephone or otherwise, a selected group of prospective bidders to invite the submission of bids for the purchase of the Debt Securities at such time and place as may be specified by the company;
- b. PG&E does not intend to publish a public invitation for bids or to take any action to notify any other prospective bidders, although it will respond to requests for information and permit others to submit bids if they so choose; and
- c. Bids may be submitted to PG&E by telephone or otherwise.

The types of Debt Securities PG&E may issue are generally described below:

A. Secured Debt Offerings (Bonds)

The Bonds, as part of the Debt Securities requested in the application, will be issued in conformity with the provisions of, and secured by, PG&E's First and Refunding Mortgage dated December 1, 1920, as amended (to be referred to as the Mortgage). The application requests authorization to execute and deliver a Fourteenth Supplemental Indenture.

B. Unsecured Debt Offerings

The Debt Securities, if in the form of unsecured debentures or notes (to be collectively referred to as Notes) may be issued in accordance with an indenture that would set forth

the aggregate principal amount, maturity, default and other material provisions of the Notes.

The Notes may be sold in public or private offerings, with fixed or floating rates, in senior or subordinated form. Notes may be sold in underwritten offerings or through agents on a best-efforts basis and on a continuous or periodic basis.

Notes may be sold privately or publicly. A public offering in the United States will require registration under the federal securities laws by the filing of a registration statement that includes a prospectus describing the Notes. Also, Notes may be sold in domestic or European offerings.

C. Convertible Notes

One or more series of Notes may also be issued in convertible form. Such Notes would be convertible into shares of PG&E's common stock. Therefore, PG&E requests authority to issue shares of its common stock. PG&E will effect any necessary registration of the common stock under federal securities laws which may be required before PG&E can deliver the common stock upon conversion of the Notes.

D. Notes with Warrants

PG&E indicates that Debt Securities may also be issued as Notes with attached warrants. One type of warrant entitles the

bearer to purchase an additional Note during a period no longer than the nonredemption period for the original Note. The additional Note would pay an interest rate less than the coupon interest rate on the original Note.

A second type of warrant, called an "equity warrant", would entitle the bearer to purchase shares of PG&E's common stock at a price per share to be set at the time of the offering. PG&E will effect any necessary registration of the common stock under federal securities laws which may be required before PG&E can deliver the common stock upon exercise of the warrants.

E. Medium-Term Notes

Medium-Term Notes (MTNs) are Notes offered on a continuous or periodic basis under a shelf registration statement filed with the Securities and Exchange Commission. Maturities generally range from nine months to 15 years, although they can extend as far as 30 years. They are sold in public or private offerings, with fixed or floating rates, in senior or subordinated form.

F. Debt Securities Issued in Foreign-Denominated Currency

Opportunities for additional interest rate savings may exist through issuing Debt Securities denominated in the currency of a foreign country. Exposure to fluctuations in the value of the dollar, in relation to the debt obligation in the foreign-denominated currency, would be minimized by one or more forward contracts to purchase the currency or an independent exchange of

payment obligations with another party in a dollar-denominated currency.

The CACD recommends that PG&E be placed on notice that the Commission, in order to protect the ratepayers from currency value fluctuations, will review the reasonableness of the effective interest rate for any Debt Securities issued in a foreign-denominated currency at the time of issuance and if such an interest rate is determined to be reasonable, may, for ratemaking purposes, use that rate as the maximum embedded cost of money for such securities. The CACD also recommends that the Commission indicate that the initial interest rate that is determined to be reasonable for such securities will only be the maximum cost of money it will allow in future rate proceedings and that any reductions in the effective cost of money resulting from currency value fluctuation be passed on to ratepayers in future rate proceedings as a reduction in the cost of money for all Debt Securities in PG&E's capital structure. We adopt the recommendations of the CACD.

G. Tax-Exempt Financings of Certain Qualified Facilities

Additionally, as part of the \$1,000,000,000 authorization sought in its application, PG&E requests authority to issue and sell the Authorities one or more series of Debt Securities or, in the alternative, to unconditionally guarantee, or otherwise secure, the Authorities' obligations in respect of their issuances

of debt in connection with the financing of PG&E's Qualified Facilities.

The proposed financings with any of the Authorities may be structured as follows:

- a. The Authority would issue and sell one or more series of its bonds, notes, debentures or other securities (to be referred to as the Authority Bonds) plus accrued interest, to a group of underwriters who would ultimately market the Authority Bonds to the general public. Concurrently with the sale and delivery of the Authority Bonds, PG&E would enter into a loan agreement with the Authority.
- b. Concurrently with the sale and delivery of the Authority Bonds, PG&E would issue and deliver to the Authority, in consideration of the Authority's obligations under the loan agreement, or other security agreement, entered into with the Authority, its Debt Securities plus accrued interest with the terms and conditions of this indebtedness to be substantially consistent with the terms and conditions of the Authority Bonds, or would unconditionally guarantee, or otherwise secure, the Authority's obligations in respect of the Authority Bonds.

The Authority Bonds could be issued in the form of long-term fixed rate securities. However, under certain market conditions, PG&E believes 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, commercial paper, notes or some other variable interest rate debt instrument. PG&E anticipates that such a variable rate financing would be structured substantially, with such changes as market conditions might dictate, as follows:

- a. Authority Bonds could be nominally long-term instruments but could carry a short-term interest rate because of the existence of a periodic "put" option or mandatory refunding date;
- b. The holders of the Authority Bonds would have the right to require that the Authority Bonds be redeemed or purchased on certain periodic dates, generally at 100% of the principal amount, plus accrued interest;
- c. A Remarketing Agent would then remarket those Authority Bonds which had been redeemed, purchased, and because the interest rate on the Authority Bonds would be periodically reset, or redeemed or purchased, Authority Bonds could generally be remarketed at about their full principal amount;
- d. 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; and
- e. As an additional obligation under the loan agreement, PG&E could cause to be delivered an irrevocable letter of credit or other credit support facility to the trustee of the Authority Bonds which would permit drawings by the trustee for the payment of unpaid principal and accrued interest on the Authority Bonds.

Request for Exemption and Other Modifications from the Commission's Competitive Bidding Rule

PG&E hereby seeks authority to issue and sell its Debt Securities on a negotiated basis and accordingly requests an exemption and other modifications from the Commission's Competitive Bidding Rule, as modified by Resolution F-616 dated October 1, 1986 in which the Commission sets forth other provisions which exempt debt issues for which competitive bidding is not

viable or available. PG&E requests additional modifications in the following areas:

- a. For negotiated public offerings for issues of \$300,000,000 aggregate principal amount of greater;
 - b. For issuances of Notes on a continuous or periodic basis under a shelf registration statement and marketed on an agency basis similar to PG&E's existing commercial paper program; and
 - c. For a one-day notification period as contemplated in Resolution F-616.
1. \$300,000,000 Principal Amount

Under Resolution F-616, the Commission may grant exemptions from the Competitive Bidding Rule for debt issues in excess of \$200,000,000 upon a compelling showing by a utility that because of the size of the issue an exemption is warranted. PG&E believes that compelling circumstances exist for an exemption for issues of \$300,000,000 aggregate principal amount, or larger, and believes that the exemption would afford it the flexibility to meet its financial requirements on the most favorable terms available. Therefore, PG&E requests an exemption from the Competitive Bidding Rule for negotiated public offerings of \$300,000,000 aggregate principal amount, or greater.

PG&E believes that the size of a debt offering can determine whether a competitive bid, or a negotiated basis, will produce the lowest cost. In a negotiated offering, an underwriting syndicate can be formed that consists of virtually the

entire investment banking community. Because competitive bidding divides the community into several competing bidding syndicates, each syndicate has fewer participants. As a result, each participant must agree to underwrite a larger portion of the issue and thereby increase its risk. For small issues, this may not result in a higher cost, but for large issues, the participants may require a premium to take on the greater risk.

PG&E states in its application that statistics suggest that, while the capital markets can accommodate competitive bidding for issues larger than \$300,000,000, such issues are infrequent and generally are restricted to companies that have high credit ratings. Competitive bidding may fragment the capital commitment and placement capabilities of underwriters, who must work against each other in a competitive bid situation and have less time to gauge and build market demand for a successful offering. As a result, competitive bidding for issues of \$300,000,000, or larger, may result in a higher cost of funds. PG&E states that few companies have used the competitive bidding process for debt transactions of \$300,000,000, or greater. ✓

PG&E believes that, for the foregoing reasons, the sale of its Debt Securities in issues of \$300,000,000, or greater, through negotiations, would enable it to obtain a cost of money at least as low as, if not lower, than would result by sale under the Competitive Bidding Rule. Therefore, it is in the best interest of PG&E's ratepayers that the proposed issue, or issues, of Debt

Securities of \$300,000,000, or larger, be exempt from the Competitive Bidding Rule.

2. Medium-Term Note Program (MTN)

Under Resolution F-616, the Competitive Bidding Rule is not applicable to debt issues for which competitive bidding is not viable or available. PG&E's MTN program would be marketed like PG&E's existing commercial paper program through up to three dealers on a best-efforts or agency basis that is incompatible with the Competitive Bidding Rule. Therefore, PG&E requests an exemption from the Competitive Bidding Rule for the issuance of Notes on a continuous, or periodic, basis through dealers on a best-efforts or agency basis.

3. One-Day Notice Period

If the Debt Securities are sold under the Competitive Bidding Rule, PG&E seeks authority to eliminate the one-day notice requirement contained in Resolution F-616. Through the use of the Securities and Exchange Commission's shelf registration procedures, it is possible to price an offering at any time the market conditions appear favorable. It is therefore desirable to be able to contact the prospective bidders and adjust the terms of the offering up to the last moment. The adjustments in the size, or terms, of the offering might come on the day of the pricing in response to the market conditions. The prospective bidders can adequately respond to the adjusted terms without having a 24-hour period to consider the change.

The CACD has reviewed PG&E's request and its reasons for further modification of the Competitive Bidding Rule as modified by Resolution F-616. The CACD has determined that PG&E has made a compelling showing that exemptions from the Competitive Bidding Rule are warranted for negotiated public offerings of \$300,000,000 aggregate principal amount, or greater; Notes issued on a continuous or periodic basis; and Debt Securities issued in connection with interest rate swaps. PG&E has made a compelling showing for the elimination of the one-day notification requirement. We will accept the CACD's recommendation.

We place PG&E on notice that if it chooses to issue and sell its Debt Securities by means of negotiated private placements, or negotiated public offerings, in its next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized and may result in a disallowance of the interest expense, if it is determined that the cost of money incurred was not prudent. We will also require PG&E to provide us with a showing of why it believes that the resulting interest rate and cost of money were advantageous to PG&E and its ratepayers. We will require this showing within a reasonable period of time after issuance of its Debt Securities.

General Order Series 24 Modification

Since the MTN Program is designed for continuous or periodic sales, strict compliance with General Order Series 24

could require daily filings with the Commission. Accordingly, PG&E requests authority to be relieved of the necessity of complying with the Commission's General Order Series 24 for sales of Debt Securities under the MTN Program. In lieu of a report or reports under the general order, PG&E proposes to file, with the Commission, on or before the 25th day of the month following each quarter, a statement for the preceding quarter showing the aggregate principal amount, interest rate, maturity and cost to the company of Debt Securities sold in connection with the MTN Programs. This proposal is consistent with the reports currently requested by the Commission for PG&E's current shelf registration program for common stock, Dividend Reinvestment and Common Stock Purchase Plan and Savings Fund Plan.

The CACD has reviewed PG&E's request and its reasons for exemption of the MTN Program from General Order Series 24's reporting requirements. CACD has determined PG&E has made a compelling showing that relief from the necessity of complying with General Order Series 24 for sales of Debt Securities under the MTN Program is warranted. The CACD recommends that PG&E be relieved of the necessity of complying with the Commission's General Order Series 24 for sales of Debt Securities under the MTN Program. The CACD recommends instead that PG&E file with the Commission on or before the 25th day of the month following each quarter a statement for the preceding quarter showing the aggregate principal amount, the interest rate, maturity and cost

to the company of Debt Securities sold in connection with the MTN Program. We will accept the CACD's recommendation.

Fourteenth Supplemental Indenture

The board of directors of PG&E, by appropriate action on September 16, 1987 has authorized its officers to execute, acknowledge, deliver and record a Fourteenth Supplemental Indenture under the provisions of the aforesaid Mortgage, when and as authorized by, and in conformity with, the provisions of an order of this Commission, for the following purposes:

1. To evidence the increase from \$8,000,000,000 to \$10,000,000,000 in the aggregate principal amount of Bonds which may be issued and outstanding and Bonds which may be reserved for issue under the Mortgage;
2. To conform to the Trustee the lien of the Mortgage on any additional property of PG&E acquired subsequent to the execution, acknowledgment and delivery of the Thirteenth Supplemental Indenture for the equal and proportionate benefit and security of the holders of all Bonds, at any time issued and outstanding under the Mortgage; and
3. To make a change in the Mortgage to set a record date for the payment of interest on Bonds.

PG&E requests authority to execute a Fourteenth Supplemental Indenture under the provisions of the First and Refunding Mortgage, as supplemented for the purposes set forth above.

PG&E, in the conduct of its several kinds of public utility business, must raise large sums of money for the acquisition and construction of additions to and improvements of its plants and properties. A portion of the funds which PG&E must raise for the above purpose must be secured from the sale of Bonds. PG&E believes that its public utility obligations will be best served if the aforementioned proposed Fourteenth Supplemental Indenture is authorized so that additional Bonds may be issued, outstanding, reserved under and entitled to the security of the First and Refunding Mortgage, as supplemented.

As shown in Exhibit A of the application, adjusted for the \$250,000,000 aggregate amount of its Series 87C Bonds issued and sold on July 16, 1987, the aggregate principal amount of Bonds outstanding under the Mortgage as of June 30, 1987, is about \$6,746,296,000. Therefore, there exists about \$1,253,704,000 remaining capacity to issue Bonds under the current \$8,000,000,000 ceiling on bonded indebtedness.

Sale of Preferred Stock

PG&E requests authorization to issue and sell, in one or more series, Preferred Stock with aggregate par value not exceeding \$200,000,000. PG&E believes it may be advantageous to have the flexibility to either publicly offer the Preferred Stock or sell it through a private placement.

The terms and conditions of the offering, such as dividend rate and any special features relating to redemption (including any sinking fund), periodic reset of the dividend rate, par value of shares and the precise number of shares will be determined by market conditions at the time of sale of the preferred stock, or each series thereof.

Use of Proceeds

PG&E proposes to use the proceeds from the proposed sale of securities, as requested in the application, other than accrued interest and after payment and discharge of obligations incurred for expenses incident to the issuance and sale for the following purposes:

- a. For the acquisition of property;
- b. For the construction, completion, extension or improvement of its facilities;
- c. For the improvement or maintenance of its services;
- d. For the discharge or lawful refunding of its obligations;
- e. For the reorganization or readjustment of its indebtedness or capitalization upon merger, consolidation, or other reorganization;
- f. For the possible redemption or purchase, if economic, and retirement of a portion of its outstanding debt or preferred stock, to partially reimburse PG&E for monies actually expended from income or other monies in its treasury not secured by, or obtained from, the issue of stocks, stock certificates or

other evidences of interest or ownership, or bonds, notes or other evidences of indebtedness, for the aforesaid purposes except maintenance of service and replacements;

- g. For future capital additions and improvements for its Qualified Facilities; and
- h. For for such other purposes as are described in PU Code Section 817. The amounts so reimbursed will become a part of PG&E's general treasury funds.

PG&E proposes to use a portion of such general treasury funds to repay a portion of its short-term borrowings outstanding at the time of PG&E's receipt of these proceeds.

Findings of Fact

1. PG&E, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. PG&E has need for external funds for the purposes set forth in the application.
3. The proposed Debt Securities, Preferred Stock and common stock would be for proper purposes.
4. The proposed agreement requiring PG&E to provide security for the Authority Bonds would not be adverse to the public interest.
5. The money, property or labor to be procured, or paid for, by the proposed Debt Securities and Preferred Stock is reasonably required for the purposes specified in the application.
6. Authorizing PG&E to determine the amount, timing, terms and conditions and method of offering its proposed Debt Securities

under the Commission's Competitive Bidding Rule within the constraints and modifications as set forth in the application would not be adverse to the public interest.

7. It is proper to determine the reasonableness of the effective interest rate incurred for any Debt Security issued in a foreign-denominated currency and to use that rate, for ratemaking purposes, as the maximum embedded cost of money in future proceedings.

8. It is proper for ratemaking purposes that any reduction in the effective cost of money resulting from currency value fluctuation on Debt Securities issued in foreign-denominated currency be passed on to ratepayers in future rate proceedings as a reduction in the cost of money for all Debt Securities.

9. The execution and delivery of a Fourteenth Supplemental Indenture under the provisions of PG&E's First and Refunding Mortgage, as supplemented, for the purposes described in the application would not be adverse to the public interest.

10. The Commission does not, by this decision, determine that PG&E's construction budget is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate or rate base offset proceedings.

11. There is no known opposition to this proceeding 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 that follows.

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

In issuing our order, we place PG&E and its stockholders on notice that the number of shares outstanding, the total book value of these shares and the dividends paid do not determine the allowable return on plant investment. This authorization is not a finding of the value of PG&E's stock or property, nor does it indicate the amounts to be included in ratemaking procedures. ✓

The following order should be effective on the date of signature and payment of the fee set by PU Code Sections 1904(b) and 1904.1 to enable PG&E to proceed with its financings expeditiously."

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric (PG&E), on or after the effective date of this order and on or prior to December 31, 1988 is authorized to do the following:

- a. To issue, sell and deliver in one or more series its Debt Securities and/or unconditionally guarantee or otherwise secure the obligations of the Authorities in respect of the tax-exempt financing of PG&E's Qualified Facilities with all such issues and sales of the Debt Securities and/or unconditional guarantees being upon terms and conditions substantially consistent with those set forth in or contemplated by the application and not to exceed an aggregate principal amount of \$1,000,000,000;
- b. To issue, sell and deliver such Debt Securities under the Commission's Competitive Bidding Rule with exemptions therefrom for negotiated public offerings of \$300,000,000 or greater, for the issuance of Notes on a continuous or periodic basis through dealers on a best-efforts or agency basis, and with the elimination of the one-day notification requirement specified in the Competitive Bidding Rule;
- c. To issue such number of shares of its common stock in exchange for and upon retirement of Debt Securities issued, as set forth in the application, upon conversion of the Debt Securities and in exchange for equity warrants, as may be required from time to time;
- d. To be relieved of the necessity of complying with the Commission's General Order Series 24 for the issuance of Medium-Term Notes.
- e. To execute and deliver a Fourteenth Supplemental Indenture under the provisions of its First and Refunding Mortgage, as supplemented, for the purposes (among other things) of (i) evidencing the increase from \$8,000,000,000 to \$10,000,000,000 in the aggregate principal amount of Bonds which may be issued and outstanding and Bonds which may be reserved for issue under the Mortgage, (ii) confirming to the Trustee the lien of the Mortgage of any property of PG&E acquired subsequent to the execution of the Thirteenth Supplemental Indenture and (iii) setting a record date for the payment of interest on bonds;

- f. To sell, in one or more series, PG&E's preferred stock of aggregate par value not exceeding \$200,000,000;
- g. To use the net proceeds (exclusive of accrued interest which would be used for general corporate purposes) to be derived from the proposed sale of securities, as requested in the application, for the purposes described in the application, including the acquisition of property, the construction, completion, extension or improvement of its facilities, or to partially reimburse its treasury for amounts previously expended for such purposes, or for capital additions or improvements for its pollution control qualified facilities, or for the possible redemption or purchase (if economically feasible) and retirement of a portion of its outstanding debt or preferred stock; ✓
- h. To use any accrued interest received in connection with the issue or issues of Debt Securities for general corporate purposes.

2. Promptly after PG&E ascertains (a) the price, interest rate, and other terms pertaining to the Debt Securities; (b) the amount of common stock that may be issued upon the conversion of Debt Securities or the exercise of equity warrants and (c) the conversion or warrant price and applicable ratio, the company shall notify the Commission in writing.

3. If the Debt Securities are sold by competitive bidding, PG&E shall file a written report with the Commission Advisory and Compliance Division (CACD) showing, for each bid received, the name of the bidder, the price, interest rate and cost to the company based on the price and interest rate. ✓

4. If the Debt Securities are sold in a public offering, PG&E shall file, with the CACD, three copies of its final ✓

prospectus pertaining to the Debt Securities as soon as it is available.

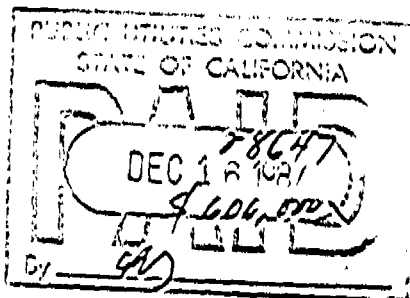
5. PG&E, within 30 days after the issuance and sale of its Debt Securities by private placement, or negotiated public offerings, shall file a report, with the CACD, setting forth the reason the company believes the resulting interest rate and cost of money were advantageous to the company and its ratepayers. ✓

6. PG&E shall file the reports required by General Order Series 24 except as noted above.

7. The application is granted as set forth above.

The authority granted by this order to issue securities will be effective when PG&E pays \$606,000, the fee set by Public Utilities Code Sections 1904(b) and 1904.1. In all other respects this order is effective today.

Dated DEC 9 1987, at San Francisco, California.



STANLEY W. HULETT
President

DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

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

Victor Weissner, Executive Director

<u>Component</u>	<u>1987</u>	<u>1988</u> (In Thousands)	<u>1989</u>
Electric Department	\$1,095,000	\$ 955,000	\$ 820,000
Gas Department	290,000	255,000	215,000
Other Common Plant	<u>220,000</u>	<u>180,000</u>	<u>165,000</u>
Total	\$1,605,000	\$1,400,000	\$1,200,000

The Commission Advisory and Compliance Division (CACD) has reviewed PG&E's construction budgets for calendar years 1987, 1988 and 1989 and has concluded that PG&E's proposed sale of securities, as requested in the application, is necessary to partially reimburse PG&E's treasury for capital additions and improvements or to fund the planned construction. However, PG&E is placed on notice, by this decision, that the Commission does not find that PG&E's construction program is necessary, or reasonable, for ratemaking purposes. These are issues normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

PG&E's cash requirements for calendar years 1988 and 1989, estimated as of August, 1987 is summarized as follows:

	<u>1988</u>	<u>1989</u>
Funds used/or Required for Construction Expenditures (Excluding AFUDC)	\$1,421,800,000	\$1,200,000,000
Maturities and Redemption of Long-Term Debt, Including Sinking Fund Requirements and Preferred Stock	362,500,000	184,000,000
Short-Term Debt Outstanding as of Beginning of Year	<u>83,000,000</u>	<u>2,000,000</u>
Subtotals	\$1,867,300,000	\$1,386,000,000
Less: Estimated Cash Available from Internal Sources	<u>1,100,300,000</u>	<u>914,000,000</u>
Additional New Funds Required from Outside Sources	\$ 767,000,000	\$ 472,000,000

The CACD has analyzed PG&E's cash requirements forecasts shown above and as indicated by the utility in its supplemental data sheets presented to the Commission and has concluded that internally generated funds will provide about 58.9% of the 1988 cash requirements, or \$1,100,300,000, and about 65.9% of the 1989 cash requirements, or \$914,000,000. The CACD concludes that PG&E's proposed sale of securities, as requested in the application, is necessary to help meet forecasted cash requirements. PG&E will need additional cash from outside sources of \$767,000,000 in 1988 and \$472,000,000 in 1989.

Capitalization Ratios

PG&E's capital ratios as of June 30, 1987 are shown below as recorded and as adjusted to give pro forma effect to the transactions that follow:

entire investment banking community. Because competitive bidding divides the community into several competing bidding syndicates, each syndicate has fewer participants. As a result, each participant must agree to underwrite a larger portion of the issue and thereby increase its risk. For small issues, this may not result in a higher cost, but for large issues, the participants may require a premium to take on the greater risk.

PG&E states in its application that Statistics suggest that, while the capital markets can accommodate competitive bidding for issues larger than \$300,000,000, such issues are infrequent and generally are restricted to companies that have high credit ratings. Competitive bidding may fragment the capital commitment and placement capabilities of underwriters, who must work against each other in a competitive bid situation and have less time to gauge and build market demand for a successful offering. As a result, competitive bidding for issues of \$300,000,000, or larger, may result in a higher cost of funds. PG&E states that few companies have used the competitive bidding process for debt transactions of \$300,000,000, or greater.

PG&E believes that, for the foregoing reasons, the sale of its Debt Securities in issues of \$300,000,000, or greater, through negotiations, would enable it to obtain a cost of money at least as low as, if not lower, than would result by sale under the Competitive Bidding Rule. Therefore, it is in the best interest of PG&E's ratepayers that the proposed issue, or issues, of Debt

Securities of \$300,000,000, or larger, be exempt from the Competitive Bidding Rule.

2. Medium-Term Note Program

Under Resolution F-616, the Competitive Bidding Rule is not applicable to debt issues for which competitive bidding is not viable or available. PG&E's MTN program would be marketed like PG&E's existing commercial paper program through up to three dealers on a best-efforts or agency basis that is incompatible with the Competitive Bidding Rule. Therefore, PG&E requests an exemption from the Competitive Bidding Rule for the issuance of Notes on a continuous, or periodic, basis through dealers on a best-efforts or agency basis.

3. One-Day Notice Period

If the Debt Securities are sold under the Competitive Bidding Rule, PG&E seeks authority to eliminate the one-day notice requirement contained in Resolution F-616. Through the use of the Securities and Exchange Commission's shelf registration procedures, it is possible to price an offering at any time the market conditions appear favorable. It is therefore desirable to be able to contact the prospective bidders and adjust the terms of the offering up to the last moment. The adjustments in the size, or terms, of the offering might come on the day of the pricing in response to the market conditions. The prospective bidders can adequately respond to the adjusted terms without having a 24-hour period to consider the change.

Conclusions of Law

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

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In issuing our order, we place PG&E and its stockholders on notice that the number of shares outstanding, the total book value of these shares and the dividends paid do not determine the allowable return on plant investment. This authorization is not a finding of the value of PG&E's stock or property, not does it indicate the amounts to be included in ratemaking procedures.

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 - g. To use the net proceeds (exclusive of accrued interest which would be used for general corporate purposes) to be derived from the proposed sale of securities, as requested in the application, for the purposes described in the application, including the acquisition of property, the construction, completion, extension or improvement of its facilities, or to partially reimburse its treasury for amounts previously expended for such purposes, or for capital additions or improvements for its Qualified Facilities, or for the possible redemption or purchase (if economically feasible) and retirement of a portion of its outstanding debt or preferred stock;
 - h. To use any accrued interest received in connection with the issue or issues of Debt Securities for general corporate purposes.
2. Promptly after PG&E ascertains (a) the price, interest rate, and other terms pertaining to the Debt Securities; (b) the amount of common stock that may be issued upon the conversion of Debt Securities or the exercise of equity warrants and (c) the conversion or warrant price and applicable ratio, the company shall notify the Commission in writing.
3. If the Debt Securities are sold by competitive bidding, PG&E shall file a written report with the Commission showing, for each bid received, the name of the bidder, the price, interest rate and cost to the company based on the price and interest rate.
4. If the Debt Securities are sold in a public offering, PG&E shall file, with the Commission, three copies of its final

prospectus pertaining to the Debt Securities as soon as it is available.

5. PG&E, within 30 days after the issuance and sale of its Debt Securities by private placement, or negotiated public offerings, shall file a report, with the Commission, setting forth the reason the company believes the resulting interest rate and cost of money were advantageous to the company and its ratepayers.

6. PG&E shall file the reports required by General Order Series 24 except as noted above.

7. The application is granted as set forth above.

The authority granted by this order to issue securities will be effective when PG&E pays \$606,000, the fee set by Public Utilities Code Sections 1904(b) and 1904.1. In all other respects this order is effective today.

Dated _____, at San Francisco, California.