

CACD/KLH

Decision 88 03 050 MAR 23 1988**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND)
 ELECTRIC COMPANY to issue and)
 sell not exceeding 20,000,000)
 shares of Common Stock, \$5 par)
 value, in connection with the)
 Savings Fund Plan.)
 (U39M))

Application 88-02-033
 (Filed February 18, 1988)

O P I N I O NSummary of Decision

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

PG&E requests authority, under Public Utilities (PU) Code Sections 818 through 830, for the following:

1. To issue and sell up to 20,000,000 shares of its Common Stock, \$5 par value in connection with its Savings Fund Plan;
2. To use the net proceeds to be derived through the issuance and sale of common stock for capital additions and improvements to its utility plant, or to partially reimburse its treasure for amounts previously expended for these purposes, or for the possible redemption or purchase (if economically feasible) and for the retirement of a portion of its outstanding debt or stock; and
3. To modify the requirements of General Order Series 24 to permit the filing of the required reports on a quarterly basis.

Notice of the filing of the application appeared on the Commission's Daily Calendar of February 24, 1988. 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 December 31, 1988, PG&E reported total operating revenues of \$7,217,147,000 and net operating income of \$1,305,625,000, as shown in Exhibit A attached to the application.

Also shown as part of Exhibit A, attached to the application, is PG&E's Balance Sheet as of December 31, 1987, summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$16,250,947,000
Gas Stored Underground-	
Noncurrent	44,041,000
Other Property and Investments	700,090,000
Current and Accrued Assets	2,673,889,000
Deferred Debits	<u>2,779,307,000</u>
Total	\$22,448,274,000
 <u>Liabilities and Equity</u>	
Common Equity	\$ 7,252,306,000
Preferred Stock	1,205,195,000
Long-Term Debt	8,064,598,000
Current and Accrued Liabilities	1,660,726,000
Other Non-Current Liabilities	443,248,000
Deferred Credits	<u>3,822,201,000</u>
Total	\$22,448,274,000

As of December 31, 1987, PG&E's construction expenditures unreimbursed from the sale of securities amount to approximately \$7,967,993,000, as shown in Schedule IV in the Supplemental Financial Data presented to the Commission.

Proposed Common Stock Issue

PG&E proposes to issue, sell and deliver up to 20,000,000 shares of its Common Stock, \$5 par value, for use in connection with the Savings Fund Plan (the Plan) for employees. A copy of the current Plan document was attached as Exhibit C to Application (A.)86-12-065 filed with the Commission on December 31, 1986. In Decision (D.)87-12-021 dated February 11, 1987, the Commission approved the issuance and sale of up to 10,000,000 shares of common stock in connection the Plan. PG&E estimates that all of those shares will have been issued by April 1988.

Under the Plan, eligible employees may elect to contribute a specified percentage of their pre-tax salary to the Plan. Participants designate the way in which their contributions are invested and may change their investment designation once each calendar quarter. Eligible employees may designate that their contributions be invested in one or more of certain funds, including PG&E's stock fund, invested in PG&E's common stock. Participants may transfer investment funds once in each 12-month period. Matching employer contributions are invested solely in PG&E's common stock and may not be transferred.

Whenever the Trustee of the Plan is directed to invest cash in PG&E's common stock, the Trustee is directed to purchase it either (1) directly from PG&E, (2) at a public sale on a recognized stock exchange or (3) from a private source at a price no higher than the price would have been payable under (2).

If and when these purchases of PG&E's common stock are made directly from PG&E for the Company Stock Fund, the Plan provides that the Trustee shall pay a price which shall be the average of the mid-points of the daily high and low composite prices as shown in the Pacific Coast Edition of The Wall Street Journal (subject to verification) for a two week period or a monthly period as appropriate, depending on which basis a participant is paid, so that on an annual basis the price of PG&E's common stock will be the average of the daily high and low composite for each trading day of the year. If and when these purchases are made from dividends, the Trustee shall purchase common stock at a price which shall be the average of the daily high and low composite shown in the Pacific Coast Edition of The Wall Street Journal (subject to verification) for the five trading days immediately preceding receipt of the dividends.

In Commission D.86-12-095 dated December 22, 1986 in A.85-12-050 for authority to increase rates, the Commission concluded it is reasonable to disallow part of the cost of the Savings Fund Plan as a ratemaking expense.

PG&E is placed on notice, by this decision, that the Commission does not find that the Plan is necessary or reasonable for ratefixing purposes. These are issues which are normally tested in general rate or rate base offset proceedings.

Request for Exemption from General Order Series 24

PG&E is unable to state the total number of the eligible employees who will purchase shares of common stock through the Plan. Accordingly, PG&E requests authorization to be relieved of the necessity of complying with Commission General Order Series 24. 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 number of shares of common stock purchased under the Plan; the gross proceeds received and the expenses incurred by it in connection with the issuance and sale of the common stock under the Plan. This proposal is consistent with the reports currently requested, by the Commission, for PG&E's current Shelf Registration Program; Dividend Reinvestment and Common Stock Purchase Plan; and Stock Option Plan.

The Commission Advisory and Compliance Division (CACD) has reviewed PG&E's application and has no objection to PG&E's proposal to issue its Common Stock, \$5 par value, for the purpose specified in the application.

Use of Proceeds

PG&E proposes to use the proceeds from the sale of securities, as requested in the application, 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 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 PG&E's outstanding debt or stock;
- g. For partial reimbursement to PG&E for monies actually expended from income or other monies in its treasury not secured by, or obtained from, the issuance of stocks, stock certificates or other evidences of interest or ownership, or bonds, notes or other evidences of indebtedness;
- h. For the purposes mentioned above except maintenance of service and replacements; or
- i. For 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.

Capitalization Ratios

PG&E's capital ratios as of December 31, 1987 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

<u>Components</u>	<u>December 31,</u> <u>1987</u>	<u>Pro Forma</u>
Long-Term Debt	47.7%	46.4%
Short-Term Debt	<u>1.9</u>	<u>8.7</u>
Total Debt	49.6%	55.1%
Preferred Stock	7.2	6.8
Common Equity	<u>43.2</u>	<u>38.1</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 A.86-05-012. Standby lines of credit with banks in the amount of \$640,000,000 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 \$99,898,703 (authorized in the amount of \$73,500,000 by D.82-12-008 dated December 1, 1982 in A.82-10-55 and as increased by \$136,000,000 in D.86-08-024 dated August 6, 1986);
3. The proposed remaining issuance of up to \$281,350,000 aggregate principal amount of Debt Securities (authorized in D.87-03-069 dated March 25, 1987 in A.86-12-066);
4. The retirement at maturity of \$39,601,000 aggregate principal amount of outstanding First and Refunding Mortgage Bonds in 1988 and 1989;
5. The redemption of (a) \$142,000,000 aggregate principal amount to meet sinking fund requirements and (b) \$329,000,000 aggregate principal amount for other purposes in 1988 and 1989;

6. The proposed issuance of up to \$1,000,000,000 aggregate principal amount of Debt Securities (authorized by D.87-12-002 dated December 9, 1987 in A.87-10-010);
7. The proposed refunding in 1988 of \$925,000,000 of tax-exempt bonds issued on behalf of PG&E by the Authority;
8. The proposed issuance of up to \$1,000,000,000 aggregate principal amount of Debt Securities requested in A.88-02-007 filed February 3, 1988 presently before the Commission for decision;
9. The proposed remaining issuance (a total of \$1,536,493,719 aggregate principal amount) of the maximum amount of short-term Debt Securities authorized by PU Code Section 823(c) and by D.87-09-056 dated September 23, 1987 in A.87-08-008;

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 1988 and 1989;
12. The proposed issuance of preferred stock with an aggregate par value up to \$200,000,000 (authorized by D.87-12-002 dated December 9, 1987 in A.87-10-010);

Common Stock

13. The issuance of 9,447,900 shares of common stock remaining in connection with the existing Shelf Registration Program (estimated proceeds of \$162,976,275 using a stock price of \$17.25) (authorized by D.85-08-098 dated August 21, 1985 in A.85-06-043);

14. The issuance of 5,716,807 shares of common stock remaining in connection with the Savings Fund Plan (estimated proceeds of \$98,614,921 using a stock price of \$17.25) (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);
15. The issuance of 16,720,821 shares of common stock remaining in connection with the Dividend Reinvestment and Common Stock Purchase Plan (estimated proceeds of \$288,434,162 using a stock price of \$17.25) (authorized by D.87-08-025 dated August 26, 1987 in A.87-07-065);
16. The issuance of 1,500,000 shares of common stock in connection with the Stock Option Plan (estimated proceeds of \$25,875,000 using a stock price of \$17.25) (authorized by D.86-10-043 dated October 16, 1986 in A.86-08-001); and
17. The proposed issuance of up to 20,000,000 shares of common stock in connection with the Savings Fund Plan (estimated proceeds of \$345,000,000 using a stock price of \$17.25) requested in the application.

The pro forma capitalization ratios (as reported above) include the maximum amount of securities issued and do not include any future additions to retained earnings. 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, PG&E has stated that the pro forma capitalization ratios may not be achieved.

PG&E is placed on notice, by this decision, that the Commission does not find that PG&E's capital ratios or the inclusion of short-term debt in its capital structure are necessary or reasonable for ratefixing purposes. These are issues which are normally tested in general rate or rate base offset proceedings.

Construction Budgets

PG&E's construction budgets for calendar years 1988 and 1989 amount to about \$2,600,000,000 estimated as of February 12, 1988. Major classifications of the total budgeted construction are summarized as follows:

	<u>1988</u>	<u>1989</u>
Electric	\$1,084,000,000	\$ 893,000,000
Gas	<u>316,000,000</u>	<u>307,000,000</u>
Total	\$1,400,000,000	\$1,200,000,000

The CACD has reviewed PG&E's construction budgets for the calendar years 1988 and 1989 and concludes that the sale of PG&E's Debt Securities is necessary to partially reimburse PG&E's treasury for capital additions and improvements to its utility plant 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 ratefixing purposes. These are issues normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

PG&E's cash requirement for 1988, estimated as of January 20, 1988, is as follows:

	<u>1988</u>
Funds Used or Required for Construction Expenditures (Excluding AFUDC)	\$1,274,000,000
Maturities and Redemptions of Long-Term Debt, Including Sinking Fund Requirements and Preferred Stock	1,280,912,000
Short-Term Debt Outstanding as of Beginning of Year	<u>(28,000,000)</u>
Subtotal	\$2,526,912,000
Less: Estimated Cash Available for internal Sources (Excluding AFUDC)	<u>750,912,000</u>
Additional New Funds Required from Outside Sources	\$1,776,000,000

The CACD has analyzed PG&E's cash requirements forecasts, shown above, as indicated by the utility in its Supplemental Data Sheets dated February 12, 1988 and concludes that internally generated funds will provide about 42% or \$750,912,000 for 1988. The CACD concludes that PG&E's proposed sale of securities, as requested in the application, is necessary to help meet PG&E's forecasted cash requirements. PG&E will need additional cash from outside sources of \$1,776,000,000 in 1988.

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 issue of common stock would be for proper purposes.
4. The money, property or labor to be procured, or paid for, by the issue of the common stock is reasonably required for the purposes specified in the application.
5. In respect to the proposed issuance and sale of common stock, PG&E should be relieved of the necessity of complying with the requirements of the Commission's General Order Series 24 in lieu of a quarterly filing.
6. There is no known opposition and there is no reason to delay granting the relief 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 security issue is for lawful purposes and the money, property or labor to be obtained by it is required for these purposes. Proceeds for the security issue may not be charged to operating expenses or income.

The number of shares outstanding, the total par value of the shares and the dividends paid do not determine 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 ratesetting proceedings.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904.1 to enable PG&E to issue its common stock expeditiously.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E), on or after the effective date of this order and before December 31, 1990, may issue and sell up to 20,000,000 shares of its Common Stock, \$5 par value, in connection with the Savings Fund Plan (Plan), such stock to be offered to the Trustee of the Plan upon terms and conditions substantially consistent with those set forth in, or contemplated by, Exhibit C attached to Application 86-12-065.

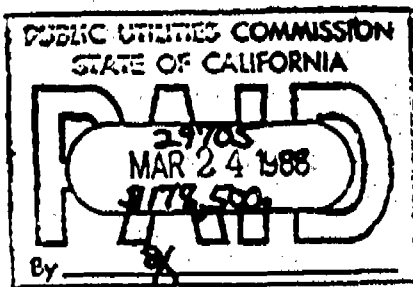
2. PG&E is relieved of the necessity of filing reports under General Order Series 24. In place of this requirement, PG&E shall file, with the Commission Advisory and Compliance Division, on or before the 25th of the month following each quarter, a statement for the preceding quarter showing the number of shares of common stock sold in connection with the Plan, the gross proceeds received and the expenses incurred by it in connection with the issuance and sale of the common stock.

3. PG&E shall use the net proceeds from the sale of its common stock for the purposes specified in the application.

4. The application is granted as set forth above.

The authority granted by this order to issue common stock in connection with the Plan will become effective when PG&E pays \$178,500, the fee set by Public Utilities Code Section 1904.1. In all other respects, this order is effective today.

Dated MAR 23 1988, 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 Weisser
Victor Weisser, Executive Director