RR/KLH/ARM/WPSC

ORIGINAL

Decision 82 05 030 MAY 18 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY to issue and sell not exceeding either 1,000,000 shares of $100 First Preferred Stock, $100 par value, or 4,000,000 shares of Preferred Stock, $25 par value.	Application 82-03-36 (Filed March 10, 1982)

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, to issue and sell in one or more series not to exceed either 1,000,000 shares of $100 First Preferred Stock, $100 par value, or 4,000,000 shares of First Preferred Stock, $25 par value, in a public offering or a private placement.

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 March 12, 1982. No protests have been received.

PG&E, a California corporation, operates as a public utility under the jurisdiction of this Commission. PG&E is principally engaged in the business of generating, purchasing, transmitting, and selling electricity and of purchasing, distributing, and selling 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 year ended December 31, 1981, PG&E reported total operating revenues of $5,956,518,000 and net income of $564,606,000 as shown in its Income Statement attached to the application as part of Exhibit A.

Also shown as part of Exhibit A is PG&E's Balance Sheet as of December 31, 1981 summarized as follows:

Assets	Amount
Net Utility Plant	$ 9,513,759,000
Other Property and Investments	488,831,000
Current and Accrued Assets	1,763,169,000
Deferred Debits	34,327,000
Total	$11,800,086,000
Liabilities and Equity	
Common Equity	$ 3,924,671,000
Preferred Stock	1,502,451,000
Long-Term Debt	4,392,676,000
Current and Accrued Liabilities	1,704,387,000
Deferred Credits	275,901,000
Total	$11,800,086,000

The application states that in view of the current unsettled market conditions PG&E believes it would be desirable to have the flexibility to offer in one or more series either (1) up to 1,000,000 shares of its $100 First Preferred Stock, $100 par value, or (2) up to 4,000,000 shares of First Preferred Stock, $25 par value. In either case, the aggregate par value would not exceed $100,000,000. In addition, PG&E believes it may be advantageous to have the flexibility to either publicly offer the preferred stock or sell it through private placement. As discussed in the application, the terms and conditions of the offering, such as dividend rate, special features relating to redemption (including sinking fund, if any), and the precise number of shares, will be determined by market conditions at the time of sale of each series of the preferred stock.

PG&E is contemplating using the preferred stock for a "leverage" preferred stock offering. To issue leveraged preferred stock, a specifically formed trust is used. The trust is capitalized with both an equity investment and funds borrowed from institutions. With the combined funds, the trust buys the preferred stock from PG&E. The equity participants in the trust use the tax deductible interest on the funds borrowed from institutions to acquire PG&E's preferred stock. The dividends from the preferred stock are subject to the 85% dividend exclusion. The exclusion of dividends provides the equity participants in the trust with a substantial increase in the after-tax return on their investment. Leverage preferred stock is financially attractive to both issuers and investors, and it may provide PG&E with a savings in its financing costs. As an inducement to the equity participants to proceed with the financing, PG&E must indemnify them against losses of assumed tax benefits. The after-tax return on investment, that the equity participants anticipate achieving, is based on the following assumptions:

1. That the preferred stock will qualify as "preferred stock" for all federal income tax purposes;

2. That the dividends paid by PG&E would be from current or accumulated earnings and profits; and

3. That the dividends would be treated as "dividends" and not as a "return of capital" for federal income tax purposes.

If payments required to be made by PG&E under the indemnification provisions would result in an increase in cost to PG&E (on pre-tax basis) in excess of one-half of one percent, PG&E would have the option to redeem the entire issue at a price equal to par plus any indemnity amounts required to compensate the equity participants for any losses.

Use of Proceeds

Proceeds from the sale of the preferred stock would be used to partially reimburse the treasury for capital expenditures and, thereafter, to repay a portion of outstanding short-term notes issued for temporary financing of capital additions and improvements to PG&E's utility plant.

PG&E's capital ratios reported as of December 31, 1981 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	December 31, 1981	Pro Forma
Long-Term Debt	44.7%	46.6%
Preferred Stock	15.3	15.3
Common Equity	40.0	38.1
Total	100.0%	100.0%

1. The proposed issuance and sale either 1,000,000 shares of $100 First Preferred Stock, $100 par value, or 4,000,000 shares of First Preferred Stock, $25 par value, at the assumed price of $23 per share to produce estimated net proceeds of $100,000,000;

2. The issuance and sale of $30,000,000 aggregate principal amount of PG&E's First and Refunding Mortgage Bonds, Series 81B, in January, 1982 (Decision (D.) 93384 dated August 4, 1981 in Application (A.) 60591);

3. The issuance and sale of $80,000,000 aggregate principal amount of PG&E's First and Refunding Mortgage Bonds in connection with a Eurobond offering in January, 1982 (D.93265 dated July 7, 1981 in A.60613);

4. The issuance and sale of 3,000,000 shares of First Preferred Stock, $25 par value, in January, 1982 which produced $79,310,000 in net proceeds (D.93269 dated July 7, 1981 and D.82-01-14 dated January 5, 1982 in A.60632);

5. The proposed sale of $250,000,000 aggregate principal amount of PG&E's First and Refunding Mortgage Bonds in connection with a Eurobond offering (D.93738 dated November 13, 1981 in A.60927);

6. The proposed sale of an additional $45,000,000 aggregate principal amount of PG&E's Debt Securities in connection with a Eurobond offering (D.93265 dated July 7, 1981 in A.60613);

7. The proposed sale of 10,000,000 shares of Common Stock, $10 par value, at an assumed price of $23 per share, estimated to produce net proceeds of $230,000,000 (D.93730 dated November 13, 1981 in A.60925);

8. The proposed sale of up to $200,000,000 aggregate principal amount of Debt Securities in connection with a Eurobond offering. (A.82-03-34 filed March 10, 1982);

9. The proposed issuance and sale of up to $250,000,000 aggregate principal amount of Debt Securities (D.82-05-003 dated May 4, 1982 in A.82-03-33);

10. The proposed sale of up to $45,000,000 aggregate principal amount of PG&E's Debt Securities in connection with the pollution control financing (D.82-05-004 dated May 4, 1982 in A.82-03-35);

11. The retirement of $52,770,000 aggregate principal amount of 3-1/8% First and Refunding Mortgage Bonds, Series R, due June 1, 1982 (D.42071 dated October 5, 1948 in A.29674);

12. The retirement of $139,771,000 aggregate principal amount of 9.85% First and Refunding Mortgage Bonds, Series 74B, due June 1, 1982 (D.83504 dated September 24, 1974 in A.55116);

13. The payment of $1,140,000 principal amount of the current portion of a long-term promissory note issued for the purpose of purchasing the Swett Ranch for wind generation (D.93051 dated May 19, 1981 in A.60448);

14. The transfer of $43,547,000 into the sinking fund for payments due in 1982; and

15. The reacquisition of First and Refunding Mortgage Bonds in the amount of $34,017,000.

As of December 31, 1981, PG&E's construction expenditures unreimbursed from the sale of securities amounted to $788,995,000 as shown in Exhibit B attached to the application. PG&E's unexpended balance of its General Manager's Authorizations for capital additions and improvements under construction as of

December 31, 1981 totaled $3,462,228,614. The distribution of the above construction budget is summarized as follows:

Purpose	Amount
Electric Plant	$3,320,304,414
Gas Plant	99,662,342
Water Plant	19,264
Steam Sales	260,031
Utility Plant Held for Future Use	22,153,479
Common Utility Plant	19,829,084
Total	$3,462,228,614

PG&E estimates that the cost of capital additions and improvements to its plant, properties, and facilities for the year 1982 will be approximately $1,280,000,000.

The Commission's Revenue Requirements Division has reviewed PG&E's construction program and has concluded the utility's estimated construction expenditures are necessary. The Division has no objection to the proposed security issue(s) specified in the application but reserves the right to reconsider the reasonableness of any construction expenditures in future rate proceedings.

The Commission's Revenue Requirements Division has analyzed PG&E's cash requirement forecast for 1982 and 1983 provided the Commission in Supplemental Data and has concluded that internally generated funds will provide only 32% of the capital expenditures for 1982 and about 46% of those estimated for 1983.

The Division concludes that the proposed issuance of preferred stock will be necessary to help meet forecasted cash requirements.

Findings of Fact

1. PG&E, a California corporation, operates as a public utility under 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 and sale of preferred stock would be for proper purposes.

4. The money, property, or labor to be procured or paid for by the issue of the preferred stock is reasonably required for the purposes specified in the application.

5. There is no known opposition to the proceeding and 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 issues of preferred stock are for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the sale of the Preferred Stock may not be charged to operating expense or income.

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 proceed with financings 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, may issue and sell, in one or more series, not to exceed either (1) 1,000,000 shares of its $100 First Preferred Stock, $100 par value, or (2) 4,000,000 shares of First Preferred Stock, $25 par value, in a public offering or a private placement and of an aggregate amount not to exceed $100,000,000, upon terms and conditions substantially consistent with those set forth in, or contemplated by, the application.

2. PG&E shall use the net proceeds from the sale for the purposes referred to in the application.

3. Promptly after PG&E ascertains the underwriting compensation, the redemption and sinking fund provisions (if any), dividend rate, and price to be paid to the company for the $100 First Preferred Stock, $100 par value, or First Preferred Stock, $25 par value, the company shall notify the Commission of each in writing.

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

5. If the preferred stock is sold in a public offering, as soon as available, PG&E shall file with the Commission three copies of its final prospectus pertaining to the $100 First Preferred Stock, $100 par value, or First Preferred Stock, $25 par value.

6. The authority granted by this order to issue securities will be effective when PG&E pays $56,000, the fee set by PU Code 1904.1.

Dated MAY 18 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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MAY 20 1982
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BY

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

Joseph E. Bodovitz, Executive Director