

RR/TC/ARM/WPSC

Decision 82 12 008

DEC 1 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and)
 Electric Company To Incur Evidence)
 of Indebtedness in Connection With)
 Certain Facilities Reinforcements.)

Application 82-10-55
 (Filed October 25, 1982)

O P I N I O N

Pacific Gas and Electric Company (PG&E), by this application requests authority to enter into a Comprehensive Agreement (Agreement) with the State of California, Department of Water Resources (DWR) and, under the terms and conditions of the Agreement, create an evidence of indebtedness in the aggregate principal amount not to exceed \$73,500,000.

Authority is sought under Public Utilities (PU) Code Sections 816 through 818. Notice of the filing of the application appeared on the Commission's Daily Calendar of October 26, 1982. No protests have been received.

PG&E, a California corporation, operates as a public utility under the jurisdiction of this Commission. PG&E engages in the business of generating, purchasing, transmitting, and selling electricity, and purchasing, transporting, transmitting, and selling natural gas in 47 counties in central and northern California. The company also provides a small amount of water and steam services.

For the 9 months ended September 30, 1982, PG&E reports that it generated total operating revenues of \$4,695,847,000 and net income of \$638,322,000, according to Attachment A to the application.

The parties to the proposed Agreement, contemplate that it will be filed for acceptance with the Federal Energy Regulatory Commission. That Commission's jurisdiction extends over the purchase, sale, and exchanges of electrical power contemplated by the Agreement and the interconnection and transmission arrangements it contains.

The application indicates that the Agreement obligates PG&E to provide DWR with firm transmission service (electric power) from two large hydroelectric facilities located near Oroville, California. From these two facilities PG&E will distribute power where needed throughout California after modifications are completed. The modification reinforcements will consist of the replacement of certain series capacitors with the installation of new shunt capacitors in two specific substation locations. Modification of the Table Mountain-Tesla Reinforcements will cost an estimated \$31,000,000 and the Los Banos-Midway Reinforcements will cost an estimated \$42,500,000 a total of \$73,500,000.

Although, according to the Agreement, PG&E is entitled to require DWR to pay the initial costs associated with the reinforcements as they are incurred, DWR obtains no ownership

rights in the modifications or in the underlying facilities. PG&E has agreed to pay back any funds DWR has provided with interest at 7.4% per annum (an amount which reflects DWR's average cost of capital). The principal amount of DWR's financing will be repaid by PG&E in equal monthly amounts over the period between the date the reinforcements are first available for service and December 31, 2004. The principal and interest will be repaid to DWR in the form of a credit in the monthly bill from PG&E to DWR for firm transmission services. If the amount of credit is greater than the monthly bill to DWR, PG&E will remit the difference to DWR in cash.

Under the terms of the Agreement, PG&E is able to finance the cost of the modifications and reinforcements contemplated by borrowing funds from DWR at a cost of money to PG&E of 7.4%. This interest cost is significantly below the cost of other long-term debt recently incurred by PG&E. Accordingly, PG&E submits that the proposed transaction is prudent, reasonable, and in the public interest.

PG&E's attorney, by letter dated November 10, 1982, requests that competitive bidding not be required in connection with the issuance of the proposed evidence of indebtedness. PG&E believes the request to dispense with competitive bidding is reasonable because the interest rate of the proposed evidence of

indebtedness is so clearly below the prevailing market rates for similar borrowings that there is no possibility that competitive bidding will result in a lower interest rate.

The Commission's Revenue Requirements Division has reviewed PG&E's application and its proposed Agreement. The Division has no objection to the creation of the evidence of indebtedness under the Agreement and the terms specified in the application but reserves the right to reconsider the reasonableness of any specific program and construction expenditure in future rate proceedings.

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 receipt of funds from DWR under the Agreement and the creation of the evidence of indebtedness would not be adverse to the public interest.
4. PG&E's entry into the proposed Agreement would be for proper purposes.
5. The issuance of the proposed evidence of indebtedness should not be required to be through competitive bidding.

6. The money, property, or labor to be procured or paid for by the proposed issue of the evidence of indebtedness is reasonably required for purposes specified in the application.

7. There is no known opposition 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 authorizations granted by this order are for the purposes of this proceeding only, and are not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

The following order should become effective on the date of signature to enable PG&E to issue evidences of indebtedness and to proceed with the planned construction modifications 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 execute and enter a Comprehensive Agreement with the State of California, Department of Water Resources and issue an evidence of indebtedness in the aggregate

principal amount not to exceed \$73,500,000 under the terms and conditions set forth in the application.

2. The proposed evidence of indebtedness is exempt from the Commission's competitive bidding rule set forth in Decision 38614, dated January 15, 1946, in Case 4761, as amended.

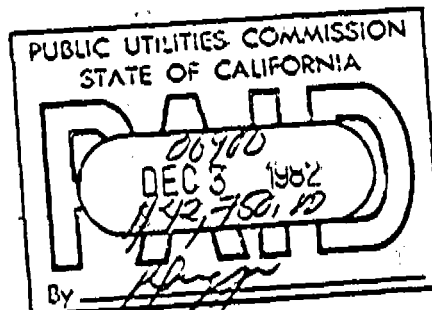
3. PG&E shall apply the funds received from the issuance of an evidence of indebtedness for the purposes set forth in the application.

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

5. The authority granted by this order will become effective when PG&E pays \$42,750, the fee set by PU Code Section 1904(b).

Dated DEC 1 1982, at San Francisco, California.

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



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

Joseph E. Bodovitz
Joseph E. Bodovitz, Executive Director