

Decision 83 01 011 JAN 12 1983

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND)
ELECTRIC COMPANY to issue and sell)
not exceeding (i) 1,000,000 shares)
of \$100 First Preferred Stock,)
\$100 par value, or (ii) 4,000,000)
shares of First Preferred Stock,)
\$25 par value.)

Application 82-11-06
(Filed November 2, 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 the application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of November 4, 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 purchasing, transporting, 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 September 30, 1982, PG&E reported total operating revenues of \$4,695,847,000 and net income of \$638,322,000, as shown in Exhibit A attached to the application.

Also, shown as part of Exhibit A is PG&E's Balance Sheet as of September 30, 1982 summarized as follows:

<u>Assets</u>	<u>Amount</u> (000 Omitted)
Net Utility Plant	\$10,214,329
Other Property and Investments	694,982
Current and Accrued Assets	1,587,335
Deferred Debits	<u>33,737</u>
Total	\$12,530,383
<u>Liabilities and Equity</u>	
Common Equity	\$ 4,262,466
Preferred Stock	1,612,451
Long-Term Debt	4,629,394
Current and Accrued Liabilities	1,487,285
Deferred Credits	<u>538,787</u>
Total	\$12,530,383

As of September 30, 1982, PG&E's construction expenditures unreimbursed from the sale of securities amounted to \$1,600,615,000, 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 September 30, 1982, totaled \$3,333,991,617.

PG&E estimates that the cost of capital additions and improvements to its plants, properties, and facilities for the year 1983 will be approximately \$1,460,000,000.

The Revenue Requirements Division has no objection to the proposed security issue(s) specified in the application; however, the Division reserves the right to reconsider the reasonableness of any specific program and construction expenditure in future rate proceedings.

PG&E's capital ratios reported as of September 30, 1982 and as adjusted to give pro forma effect to the proposed issuance of \$100,000,000 aggregate par value of the preferred stock are as follows:

	<u>September 30, 1982</u>	<u>Pro Forma</u>
Long-Term Debt	43.5%	44.2%
Preferred Stock	15.5	13.9
Common Equity	<u>41.0</u>	<u>41.9</u>
Total	<u>100.0%</u>	<u>100.0%</u>

PG&E is authorized by the Commission to issue the following securities which are also reflected in the pro forma capitalization ratios as of September 30, 1982:

- a. The issuance and sale in October 1982 of \$250,000,000 aggregate principal amount of First and Refunding Mortgage Bonds, Series 82B (Decision (D.) 82-05-003 dated May 4, 1982 in A.82-03-33);
- b. The issuance and sale of 184,800 shares of common stock during October 1982 in connection with the Shelf Registration Program, which produced net proceeds of \$5,163,976.27, leaving 55,000 shares remaining to be issued (D.82-06-017 dated June 2, 1982 in A.82-04-19);
- c. The issuance and sale of 292,806 shares of common stock during October 1982 in connection with the Employees Savings Fund Plan. Of the 10,000,000 shares currently authorized, 9,707,194 shares remain to be issued (D. 82-08-013 dated August 4, 1982 in A.82-06-54);
- d. The issuance and sale of 440,816 shares of common stock during October 1982 in connection with the Dividend Reinvestment and Common Stock Purchase Plan. Of the 10,000,000 shares currently authorized under the plan, 8,382,357 remain to be sold. (D.93638 dated October 20, 1981 in A.60897);
- e. The issuance and sale of up to \$140,000,000 aggregate principal amount of debt securities remaining unissued from the \$200,000,000 authorized in connection with Eurobond financing (D.82-05-079 dated May 18, 1982 in A.82-03-34);
- f. The issuance and sale in November 1982 of 5,000,000 shares of common stock (D.93730 dated November 13, 1981 in A.60925, as modified by D.82-10-050 dated October 20, 1982 in A.82-08-58);

- g. The proposed issuance of a long-term debt obligation of approximately \$73,500,000 to the State of California, Department of Water Resources, as part of a comprehensive agreement providing for the purchase, sale and exchange of electrical capacity and energy, for interconnection arrangements, and for transmission service (D.82-12-008 dated December 1, 1982 in A.82-10-55);
- h. The proposed sale of \$500,000,000 aggregate principal amount of debt securities currently before the Commission (A.82-11-05 dated November 3, 1982);
- i. The issuance and sale in October 1982 of the remaining 443,853 shares of common stock in connection with the Savings Fund Plan (D.40873 dated October 10, 1979 in A.59052); and
- j. The issuance and sale of 5,000,000 shares of common stock in connection with the Shelf Registration Program (D.93730 dated November 13, 1981 in A.60925, as modified by D.82-10-050 dated October 20, 1982 in A.82-08-58).

The following items are also reflected in the pro forma capitalization ratios as of September 30, 1982:

- a. Reinvested earnings in the aggregate principal amount of \$71,900,000;
- b. The retirement of \$48,935,000 of First Mortgage Bonds, Series S, due June 1, 1983 (D.42973 dated June 28, 1949 in A.39356); and
- c. The retirement of \$16,700,000 of 7.90% First Mortgage Bonds, Series A, due February 16, 1978 (D.88471 dated February 7, 1978 in A.57787).

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 up to (a) 1,000,000 shares of its \$100 First Preferred Stock, \$100 par value, or (b) 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.

The application also states that in D.82-05-080 dated May 18, 1982 PG&E was authorized 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 First Preferred Stock, \$25 par value, for an aggregate par value of not exceeding \$100,000,000. Under this authority, on August 11, 1982 PG&E issued and sold 350,000 shares of 14.75% Redeemable \$100 First Preferred Stock, leaving preferred stock having an aggregate par value of \$65,000,000 to be issued at a later time. PG&E requests that this application supersede the earlier decision and to include the remaining shares of preferred stock authorized by the Commission as part of the total authorization requested.

As discussed in the application, the terms and conditions of the offering, such as dividend rate and any 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 the preferred stock, or each series.

PG&E states in its application that it may be possible to use some of the preferred stock requested in this application for a "leveraged" 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 the original issuer. As an inducement to the equity participants to proceed with the financing, the issuer must indemnify them against losses of assumed tax benefits. The after-tax return on investment which the equity participants anticipate achieving is based on assumptions that the preferred stock will qualify as "preferred stock" for all federal income tax purposes and that the dividends paid by the issuer would be from current or accumulated earnings and profits and, as such, would be treated as "dividends" and not as a "return of capital" for federal income tax purposes. The "dividends" from the preferred stock are subject to the 85% dividend exclusion. If payment required to be made by PG&E under the indemnification provisions would result in an increase in

cost to PG&E (on a 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.

Proceeds from the sale of the preferred stock would be used to partially reimburse the treasury for capital expenditures and improvements to PG&E's utility plant.

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 of preferred stock would be for proper purposes.
4. 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 from the security issue may not be charged to operating expenses or income.
5. There is no known opposition to the proceeding and no reason to delay granting the authority requested.

Conclusion 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 authorization granted is for purposes of this proceeding only and is not be construed as indicative of the amounts to be included in proceedings for the determination of just and reasonable rates.

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 exceeding (a) 1,000,000 shares of \$100 First Preferred Stock, \$100 par value, or (b) 4,000,000 shares of First Preferred Stock, \$25 parvalue, in a public offering or a private placement for an aggregate par value 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 authorized 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, authorized, the Company shall notify the Commission of each in writing.
4. PG&E shall file the reports required by General Order Series 24.

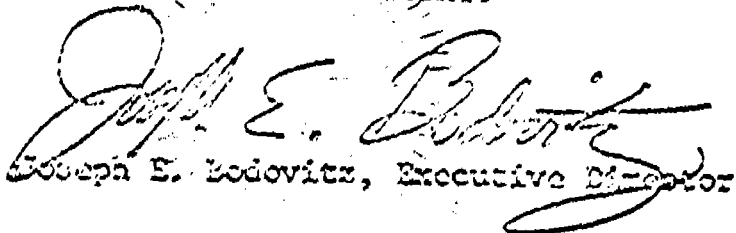
5. If the preferred stock is sold in a public offering, as soon as available, PG&E shall file with the Commission three copies of its final prospectus pertaining to the \$100 First Preferred Stock or the \$25 First Preferred Stock.

6. This Order supersedes the ordering paragraphs contained in D.82-05-060 dated May 18, 1982 in A.82-03-36, insofar as the authorization there stated has not been exercised by PG&E to the date of this order.

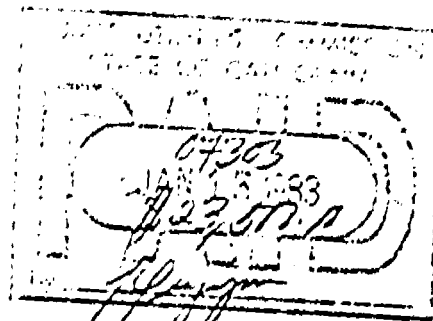
7. The authority granted by this order to issue securities will become effective when PG&E pays the fee set by PU Code 1904.1, less the fee already paid by PG&E for the unused \$65,000,000 aggregate par value previously authorized by the Commission in its D.82-05-060, which fee is \$23,500. In all other respects, this order becomes effective 30 days from today.

Dated JAN 12 1983, at San Francisco, California.

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


Joseph E. Lodovitz, Executive Director

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



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 or the \$25 First Preferred Stock.

6. This Order supersedes the ordering paragraphs contained in D.82-05-080 dated May 18, 1982 in A.82-03-06³, insofar as the authorization there stated has not been exercised by PG&E to the date of this order.

7. The authority granted by this order to issue securities will become effective when PG&E pays the fee set by PU Code 1904.1, less the fee already paid by PG&E for the unused \$65,000,000 aggregate par value previously authorized by the Commission in its D.82-05-080, which fee is \$23,500. In all other respects, this order becomes effective 30 days from today.

Dated JAN 12 1983, at San Francisco, California.

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

