RR/KLH/ARM/WPSC

Decision 83 02 040 FEB 16 1983 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY to issue, sell and deliver one or more series of its First and Refunding Mortgage Bonds, debentures, promissory notes and/or other evidences of indebtedness in an aggregate principal amount not exceeding $500,000,000.	Application 82-11-05 (Filed November 2, 1982)

OPINION

Pacific Gas and Electric Company (PG&E) requests authority, under Public Utilities (PU) Code Sections 816 through 818, as follows:

1. To issue and sell, in one or more series, up to $500,000,000 aggregate principal amount of PG&E's First and Refunding Mortgage Bonds (New Bonds), debentures, promissory notes, and/or other evidences of indebtedness (collectively referred to as Debt Securities) by means of competitive bidding, negotiated public offering, or negotiated private placement;

2. To be exempted from the Commission's competitive bidding requirements those Debt Securities sold through negotiated public offerings or negotiated private placement;

3. To transfer the authority to issue and sell the remaining authorized but unissued New Bonds from Decision (D.) 93738 dated November 13, 1981 modified by D.82-05-008

dated May 4, 1982 in Application (A.) 60927); to apply this authority against the $500,000,000 of New Bond's requested in this proceeding; and to transfer the applicable $25,000 fee set by PU Code Section 1904(b) in those proceedings to the fee assessed in the current proceeding; and

4. To shorten to one day the period of time between the public invitation for bids and the opening of bids for PG&E's New Bonds sold through competitive bidding.

<u>Summary of Decision</u>

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 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 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, shown attached to the application as part of Exhibit A.

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

Assets		Amount
Net Utility Plant		$10,197,215,000
Gas Stored Underground-Noncurrent		17,114,000
Other Property and Investments		694,982,000
Current and Accrued Assets		1,587,335,000
Deferred Debts		33,737,000
	Total	$12,530,383,000
Liabilities and Equity		
Common Equity		$ 4,262,466,000
Preferred Stock		1,612,451,000
Long-Term Debt		4,629,394,000
Current and Accrued Liabilities		1,487,285,000
Deferred Credits		538,787,000
	Total	$12,530,383,000

As of September 30, 1982, PG&E's construction expenditures unreimbursed from the sale of securities amounted to $1,600,615,000, shown attached to the application as Exhibit B. 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.

PG&E's capital ratios reported as of September 30, 1982 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

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

1. The proposed issuance and sale of up to $500,000,000 of Debt Securities that include $50,000,000 of unissued New Bonds previously authorized (D.93738 dated November 13, 1981 in A.60927 as modified by D.82-05-008 dated May 4, 1982 in A.82-04-20);

2. The issuance and sale in October 1982 of $250,000,000 aggregate principal amount of First and Refunding Mortgage Bonds, Series 82B (D.82-05-003 dated May 4, 1982 in A.82-03-33);

3. 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);

4. The proposed issuance of a long-term debt obligation of about $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);

5. The proposed issuance and sale of up to 1,000,000 shares of $100 First Preferred Stock, $100 par value, or 4,000,000 shares of First Preferred Stock, $25 par value estimated to produce $100,000,000 in net proceeds. This includes the remaining 65,000 authorized but unsold shares under D.82-05-080 dated May 18, 1982 in A.82-03-36 and incorporated into A.82-11-06 filed November 2, 1982;

6. The issuance and sale in October 1982 of the remaining 443,853 shares of Common Stock, $10 par value, in connection with the Savings Fund Plan producing net proceeds of $12,291,441 (D.90873 dated October 10, 1979 in A.59052);

7. The issuance and sale in November 1982 of 5,000,000 shares of Common Stock, $10 par value, producing net proceeds of $137,325,000 (D.93730 dated November 13, 1981 in A.60925, as modified by D.82-10-050 dated October 10, 1982 in A.82-08-58);

8. The issuance and sale in October 1982 of 440,816 shares of Common Stock, $10 par value, producing net revenues of $12,400,000 in connection with PG&E's Dividend Reinvestment and Common Stock Purchase Plan leaving 8,382,357 shares authorized but unissued projected to produce net proceeds of $227,371,000 (D.93638 dated October 20, 1981 in A.60897);

9. The issuance and sale in October 1982 of 184,800 shares of Common Stock, $10 par value, producing net proceeds of $5,163,976 leaving 55,000 shares authorized but unissued in connection with PG&E's Shelf Registration Program. The unissued shares are projected to produce net proceeds of $1,492,000 (D.82-06-017 dated June 2, 1982 in A.82-04-19);

10. The issuance and sale of the 5,000,000 shares of Common Stock, $10 par value, transferred from D.93730 (item 7) to be used in connection with PG&E's Shelf Registration Program projected to produce net proceeds of $135,625,000 (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);

11. The issuance and sale in October 1982 of 292,806 shares of Common Stock, $10 par value, producing net proceeds of $8,108,559 in connection with the Savings Fund Plan leaving 9,707,194 authorized but unissued projected to produce net proceeds of $263,308,000 (D.82-08-013 dated August 4, 1982 in A.82-06-54);

12. The retirement of $48,935,000 of 3% First Mortgage Bonds, Series S, due June 1, 1983 (D.42973 dated June 28, 1949 in A.30356);

13. The retirement of $16,700,000 of 7.90% First Mortgage Bonds, Series A, due February 16, 1983 (D.88471 dated February 7, 1978 in A.57787); and

14. Reinvested earnings in the aggregate principal amount of $71,900,000.

PG&E proposes to issue and sell, in one or more series, up to $500,000,000 aggregate principal amount of its Debt Securities. The Bonds, as part of the Debt Securities, 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.

In D.93738 dated November 13, 1981 in A.60927 modified by D.82-05-008 dated May 4, 1982 in A.82-04-20, the Commission authorized PG&E to issue and sell up to $250,000,000 aggregate principal amount of its New Bonds. On June 1, 1982 PG&E issued $200,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, Series 82A, leaving $50,000,000 of New Bonds authorized but unissued. The utility seeks authority to issue and sell these New Bonds as part of the total $500,000,000 authority requested in this application.

The terms and conditions of the proposed Debt Securities offerings, including the price, the interest rate, maturity date, and redemption provisions will be determined by market conditions at the time of sale of each series.

Request for Exemption from Competitive Bidding

PG&E requests an exemption for the sale of its Debt Securities from the Commission's competitive bidding requirements set forth in D.38614 dated January 15, 1946 in Case 4751, as amended. PG&E seeks authority to issue and sell its Debt Securities either by a competitive bid or to be exempted so that the Debt Securities may be sold either by means of a negotiated public offering or a negotiated private placement depending on market conditions existing at the time of the proposed sale or sales.

PG&E believes that compelling circumstances exist for requesting an exemption and believes that the financial flexibility the exemption would afford would enable it to meet its financial requirements on the most favorable terms available.

PG&E states that its management currently is engaged in rigorous cost-cutting and budgeting efforts. Further, PG&E states that its ability to be efficient in the management of financing costs would be restricted by a competitive bidding requirement for debt offerings. Although competitive bidding may result in the lowest cost on the particular bidding date, the requirement does not assure that this cost was the lowest obtainable during a span of weeks or months surrounding the bidding date nor does the requirement allow for flexibility to change the terms to meet market conditions. PG&E states that a waiver of the rule will remove a restriction in the ability of PG&E to be efficient in the management of its financing costs, which are established at certain assumed rates in its most recent general rate case.

In addition to the foregoing example, PG&E seeks a waiver of the competitive bidding rule for the following reasons:

1. Current market conditions indicate a continued period of volatile interest rates, due in part to investor uncertainty regarding inflation and the large demand for long-term funds by both government and private industry. These conditions are expected to persist through most, if not all, of 1983. The bond markets are experiencing wide rate fluctuations on an almost daily basis, making the timing of any issue

extremely difficult. A negotiated offering provides greater flexibility to adjust the timing and terms of a proposed offering to meet these changeable market conditions than what is available through the competitive bid process.

2. Competitive bidding divides the shrinking investment banking community into several competing selling efforts. In a negotiated offering, the entire investment banking community is available to be formed into a selling syndicate with those firms best able to market the securities. In competitive bidding, firms with relatively good underwriting and marketing abilities might well be members of an unsuccessful group. Thus their sales strength is lost.

3. With the adoption of Rule 415 by the Securities and Exchange Commission in early 1982, it has become possible for an issuer to file a "shelf" registration statement for an offering and then be prepared to negotiate on very short notice with prospective underwriters. This technique allows issuers to take advantage of favorable rates on an expedited basis.

4. In seeking authority to issue the Debt Securities by negotiated private placement, PG&E believes that the terms and conditions of a private placement sale can be tailored to meet the requirements of institutional investors in order to obtain a more favorable interest rate on the Debt Securities than that available through a public offering.

PG&E believes that because of these factors the sale of its Debt Securities through negotiations will enable it to obtain a cost of money at least as low as, if not lower, than if it were determined by sale at competitive bidding. Furthermore, PG&E believes that it is in the public interest that the proposed issue of Debt Securities be exempted from the requirements of competitive bidding.

In D.91984, dated July 2, 1980 for San Diego Gas & Electric Company in A.59633, we discussed the granting of exemptions from the competitive bidding rule, and we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule. We served notice that assertions regarding the volatility of the market, the flexibility provided by a negotiated sale, and the importance of maximizing the effectiveness of the underwriting will not serve as compelling reasons, individually, or collectively, for granting an exemption from the competitive bidding rule.

The Commission's Revenue Requirements Divisions believes that the principles of the competitive bidding rule are valid under current economic conditions; however, because of PG&E's need for large amounts of capital, the Division recommends that an exemption from the competitive bidding rule be granted at this time.

We are frankly uncertain whether strict adherence to the competitive bidding rule would prove beneficial in this instance. In light of the magnitude of the proposed debt issue ($500 million), we believe that the company should have the additional flexibility of proceeding on a negotiated basis. Consequently, for this application only, we will accept the recommendation of the Revenue Requirements Division. We will authorize PG&E to proceed on either a competitive bid, a private placement, or a negotiated public offering.

If PG&E chooses to issue and sell the Debt Securities by means of a private placement or a negotiated public offering, we place it on notice that 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 the company and its ratepayers. We will require this showing within a reasonable period of time after the issuance and sale of the Debt Securities.

PG&E requests, in the event conditions in the financial markets warrant the issuance and sale of the Debt Securities by competitive bidding, that the period of time required by the competitive bidding rule for notification of an invitation for bids be reduced from five days to one day. This reduced time interval is required because decisions relative to the method by which a financing takes place in today's volatile financial markets must be made as close as possible to that date of sale.

Use of Proceeds

Proceeds from the sale of the Debt Securities (exclusive of accrued interest which would be used for general corporate purposes) would be used as follows:

1. To retire 3% First and Refunding Mortgage Bonds; Series S, in the amount of $45,081,000;

2. To retire 7.90% First and Refunding Mortgage Bonds, Series A, in the amount of $16,700,000; and

3. The balance to partially reimburse the treasury for capital expenditures and improvements to PG&E's utility plant.

The Commission's Revenue Requirements Division has reviewed PG&E's construction program. The Division has no objection to the proposes sale of PG&E's Debt Securities but reserves the right to reconsider the reasonableness of any specific construction expenditure in fufute rate proceedings.

The Revenue Requirements Division has analyzed PG&E's cash requirements forecasts for 1982 and 1983 provided the Commission in Supplemental Data and has concluded that internally generated funds will provide about 32% of the capital expenditures for 1982 and about 46% of those estimated for 1983. The Division concludes that the proposed issuance of Debt Securities 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 needs external funds for the purposes set forth in the application.

3. The proposed Debt Securities would be for proper purposes.

4. The money, property, or labor to be procured or paid for by the proposed Debt Securities is reasonably required for the purposes specified in the application.

5. In the event Debt Securities are sold under the Commission's competitive bidding rule, PG&E's request that the period of time required by the rule for notification of an invitation for bids be reduced from five days to one day is reasonable and would not be adverse to the public interest.

6. 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 Debt Securities are for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the Debt Securities may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable PG&E to issue its securities 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, sell, and deliver in one or more series up to $500,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, debentures, promissory notes, other evidences of indebtedness, or any of them, with all the issues and sales of the Debt Securities, upon terms and conditions substantially consistent with those set forth in, or contemplated by, the application.

2. PG&E's proposed Debt Securities are exempted from the Commission's competitive bidding requirements set forth in D.38614, dated January 15, 1948 in Case 4761, as amended.

3. The time period specified in D.38614 in Case 4761, as amended, between the publication of the public invitation for bids and the opening of bids shall be reduced to one day for a sale through competitive bidding.

4. PG&E shall use the net proceeds from the sale of the Debt Securities for the purposes referred to in the application.

5. Promptly after PG&E ascertains the price, interest rate, and other terms pertaining to the Debt Securities, the company shall notify the Commission in writing.

6. 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, the interest rate, and the cost of money to the company based on the price and interest rate.

7. If the Debt Securities are sold by competitive bidding or by a negotiated public offering, as soon as available, PG&E shall file with the Commission three copies of its final prospectus pertaining to the Debt Securities.

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

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

10. The authority granted by this order to issue Debt Securities will become effective when PG&E pays $198,182.50, the fee set by PU Code Section 1904(b) after taking credit for the retirement of $48,935,000 of 3% First Mortgage Bonds, Series S, due June 1, 1983; the retirement of $16,700,000 of 7.90% First Mortgage Bonds, Series A; and a $25,000 credit against the fee paid on D.93738 covering the $50,000,000 of unissued New Bonds authorized in that decision but transferred to the current proceeding.

Dated FEB 16 1983, at San Francisco, California.

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

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
07813
FEB 17 1983
$198,182.50
By

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

Joseph E. Bodovitz, Executive Director