Decision 83 09 072 SEP 30 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 $750,000,000.	Application 83-08-37 (Filed August 12, 1983)

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 $750,000,000 aggregate principal amount of PG&E's First and Refunding Mortgage Bonds (Bonds), debentures, promissory notes, and/or other evidences of indebtedness (collectively referred to as Debt Securities) upon terms and conditions substantially consistent with those set forth in, or contemplated by, the application;

2. To sell the proposed issue or issues of Debt Securities by means of competitive bidding; negotiated public offering, or negotiated private placement;

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

4. To shorten to one day the period of time between the public invitation for bids and the opening of bids for those Bonds sold through competitive bidding.

Summary of Decision

The 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 August 16, 1983. No protests have been received.

PG&E, a California corporation, operates as a public utility under the jurisdiction of this Commission. PG&E generates, purchases, transmits, and sells electric energy 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 12-months ended June 30, 1983, PG&E reported total operating revenues of $6,807,603,000 and net income of $761,019,000 as shown in its Consolidated Income Statement provided to the Commission.

PG&E's Balance Sheet as of June 30, 1983 shown as part of Exhibit B to the application is summarized as follows:

Assets	Amount
Net Utility Plant	$11,041,296,000
Gas Stored Underground-Noncurrent	17,114,000
Other Property and Investments	630,514,000
Current and Accrued Assets	1,524,200,000
Deferred Debts	283,727,000
Total	$13,496,851,000
Liabilities and Equity	
Common Equity	$ 4,636,660,000
Preferred Stock	1,612,451,000
Long-Term Debt	5,006,517,000
Current and Accrued Liabilities	1,595,910,000
Deferred Credits	645,313,000
Total	$13,496,851,000

As of June 30, 1983, PG&E's construction expenditures unreimbursed from the sale of securities amounted to $1,747,351,000 shown as Exhibit C attached to the application. PG&E's unexpended balance of its General Manager's Authorizations for capital additions and improvements under construction as of April 30, 1983 totaled $3,007,600,000.

PG&E estimates that its cost of capital additions and improvements to its plant, properties, and facilities for the year 1984 will be approximately $1,460,000,000.

PG&E's capital ratios reported as of June 30, 1983 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	June 30, 1983	Pro Forma
Long-Term Debt	44.5%	47.3%
Preferred Stock	14.3	13.1
Common Equity	41.2	39.6
Total	100.0%	100.0%

1. The proposed issuance and sale of up to $750,000,000 aggregate principal amount of PG&E's Debt Securities;

2. The authorized but unsold Debt Securities in the aggregate principal amount of $140,000,000 in connection with Eurobond financings (Decision (D.) 82-05-079) dated May 18, 1982 in Application (A.) 82-03-34);

3. The authorized but unsold Debt Securities in the aggregate principal amount of $250,000,000 (D.83-02-040 dated February 16, 1983 in A.82-11-05);

4. The long-term debt obligation in the aggregate principal amount of $73,000,000 with 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 services, of which approximately $400,000 has been borrowed since June 30, 1983 (D.82-12-008 dated December 1, 1982 in A.82-10-55);

5. The authorized issuance and sale of 1,000,000 shares of $100 First Preferred Stock, $100 par value, or 4,000,000 shares of First Preferred Stock, $25 par value, of which 750,000 shares of 10.17% Redeemable $100 First Preferred Stock,

$100 par value, were sold on August 3, 1983 producing proceeds of $75,000,000 and 250,000 shares remaining unsold with anticipated proceeds of $25,000,000 (D.83-01-011 dated January 12, 1983 in A.82-11-06);

6. The authorized issuance and sale of 9,716,000 shares of common stock to be issued in connection with the Shelf Registration Program, anticipated to produce proceeds of $145,740,000 at an assumed $15 per share, all shares remaining unsold at the present time (D.82-10-050 dated October 20, 1982 in A.82-08-58 and D.83-05-063 dated May 18, 1983 in A.83-04-31);

7. The authorized issuance and sale of 15,136,032 shares of common stock in connection with the Employees Savings Fund Plan of which 744,204 shares have been sold since June 30, 1983 producing proceeds of about $18,600,000 and 14,391,828 shares remaining unsold having anticipated proceeds of $215,877,420 at $15 per share (D.82-08-013 dated August 4, 1982 in A.82-06-54 and D.83-05-063 dated May 18, 1983 in A.83-04-31);

8. The authorized issuance and sale of 12,839,430 shares of common stock to be issued in connection with the Dividend Reinvestment and Common Stock Purchase Plan of which 1,105,813 shares have been issued since June 30, 1983 producing proceeds of about $16,400,000 and 11,733,617 shares remaining to be sold with anticipated proceeds of $176,004,255 at an assumed $15 per share (D.93638 dated October 20, 1981 in A.60897 and D.83-05-063 dated May 18, 1983 in A.83-04-31);

9. The retirement of 7.90% First and Refunding Mortgage Bonds, 7.90% Series B, in the aggregate principal amount of $16,700,000 maturity February 16, 1984 (D.88471 dated February 7, 1978 in A.57787);

10. The retirement of 3.125% First and Refunding Mortgage Bonds, Series X, in the aggregate principal amount of $20,300,000 maturity June 1, 1984 (D.50057 dated May 18, 1954 in A. 35361);

11. The retirement of 3.125% First and Refunding Mortgage Bonds, Series W, in the aggregate principal amount of $13,300,000 maturity December 1, 1984 (D.49592 and D. 49676 dated January 15, 1954 and February 16, 1954, respectively, in A.35054); and

12. The approximate net reduction in reinvested earnings in the amount of $41,700,000 during the period from June 30, 1983 to August 12, 1983 due to paying out dividends in excess of earnings for the period.

PG&E proposes to issue and sell, in one or more series up to $750,000,000 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.

The terms and conditions of the proposed Debt Securities offerings, including the price, interest rate, maturity date, redemption provision, and sinking fund (if any) will be determined by market conditions at the time of sale of the Debt Securities, or each series of them.

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 the Debt Securities either by competitive bidding 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.

Rules adopted by the Commission, in D.38164, authorize this Commission to grant exemptions from the competitive bidding requirements which the Commission has done from time to time upon a showing of compelling circumstances.

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

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

In addition to the foregoing reason, PG&E states that there are a number of considerations that would make the required use of competitive bidding a disadvantageous method of selling debt offerings:

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 for the foreseeable future. The bond markets are experiencing substantial rate fluctuations, making the timing of any issue extremely important. A negotiated offering provides greater flexibility to adjust the timing and terms of a proposed offering to meet these changeable market conditions that would not be available through the competitive bidding 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 may be lost.

3. Since the adoption of Rule 415 by the Securities and Exchange Commission in 1982, it is now 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 which may not be available in the context of competitive bidding.

4. 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 would enable it to obtain a cost of money at least as low as, if not lower, than if the cost of money 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 and 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.

We are persuaded that an inflexible adherence to the requirements of the competitive bidding rule may not be in the public interest, particularly given PG&E's need for large amounts of capital. We are frankly uncertain whether strict adherence to the competitive bidding rule would prove beneficial in the instance. Consequently, for this application only, we will authorize PG&E to proceed on either a competitive bid, a negotiated public offering, or a private placement, according to PG&E's estimation of where the most favorable opportunity lies.

If PG&E chooses to issue and sell the Debt Securities by means of a negotiated 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 its Debt Securities.

Reduction of Time in Notification Period

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 financial markets must be made as close as possible to the 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 approximately $50,000,000 of outstanding First and Refunding Mortgage Bonds (Series W, X, and 7.90% Series B);

2. The Balance, if any, 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 budget for 1983 and 1984 and find that the sale of the Debt Securities is necessary to fund the planned construction expenditures.

The Commission is neither finding that the construction is necessary nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

The Commission's Revenue Requirements Division has analyzed PG&E's cash requirements forecast for 1983 and 1984 provided the Commission in Supplemental Data and has concluded that internally generated funds will provide about 46% of the capital expenditures for 1983 and about 63% of those estimated for 1984. 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 the 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.

ORDER

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 $750,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, debentures, promissory notes, and/or other evidences of indebtedness, or all of them (collectively referred to as 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, on those security issues sold by means of negotiated public offering or negotiated private placement.

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 its 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 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.

A.83-08-37 RR/KLH/ARM/WPSC

10. The authority granted by this order to issue Debt Securities will become effective when PG&E pays $356,000, the fee set by PU Code Section 1904(b) after taking credit for the retirement of First and Refunding Mortgage Bonds, Series W; Series X, and Series 7.90%B in the aggregate principal amount of about $50,000,000. In all other respects, this order is effective today.

Dated SEP 30 1983 at San Francisco, California.

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

Commissioner Priscilla C. Grew, being necessarily absent, did not participate

Commissioner William T. Bagley being necessarily absent, did not participate.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
OCT 3 1983
$356,000
By

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

Joseph E. Bodovitz, Executive Director