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Decision No. 88471 FEB 7 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY to issue and sell through private placement $50,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, 7.90% Series A, B and C, due five, six and seven years from the date of issue, respectively.	Application No. 57787 (Filed January 4, 1978)

OPINION

Pacific Gas and Electric Company (PG&E) seeks authority to issue and sell on a negotiated basis $50,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, 7.90% Series A, B and C due five, six and seven years from the date of issue, respectively.

Under terms of a private placement with an international source arranged by investment bankers, the three new series (New Bonds), bearing interest at the rate of 7.90% per annum, would be sold at a price of 100% of the aggregate principal amount. The New Bonds dated December 1, 1977 would be subject to the provisions of PG&E's First and Refunding Mortgage, as amended by supplemental indentures, and would mature at intervals of five, six and seven years from the date of issue as follows:

First and Refunding Mortgage Bonds	Years to Maturity	Principal Amount
7.90% Series A	5	$16,700,000
7.90% Series B	6	16,700,000
7.90% Series C	7	16,600,000
Total		$50,000,000

The New Bonds would not be redeemable unless a change in tax laws of the United States or any of its political subdivisions results in interest becoming subject to withholding for income tax. In that event, if PG&E determines that additional payments to the original purchaser would be required to maintain the net payment of interest at not less than the 7.90% coupon rate, then redemption at par plus accrued interest may occur.

If at any time prior to maturity the authenticating Trustee under PG&E's First and Refunding Mortgage should be required by the Mortgage to select bonds for redemption for the sinking fund, the company would not exercise its right to specify the New Bonds for that purpose. This restrictive redemption provision has been included to enable the utility to secure funds at a lower interest cost than would have otherwise been possible.

PG&E reports that its unreimbursed capital expenditures as of October 31, 1977 exceeded $1.4 billion and that the unexpended balance of General Manager's authorizations for property additions amounted to $1.2 billion. For the year 1978, capital outlays will approximate $810 million, 45% of which may be financed with funds in PG&E's treasury and with internally generated funds. After payment and discharge of obligations incurred for expenses related to issuance and sale of the New Bonds, the company proposes to use the net proceeds, exclusive of accrued interest, to reimburse its treasury for capital expenditures. The accrued interest would be used for general corporate purposes.

The utility's capital ratios as of September 30, 1977, and as adjusted to give effect to the previously authorized sale of common stock on December 13, 1977 and to the proposed bond sale, are as follows:

Component	September 30, 1977	Pro Forma
Long-term debt	47.8%	47.0%
Preferred stock	14.2	13.8
Common stock equity	38.0	39.2
Total	100.0%	100.0%

PG&E requests an exemption from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946 as amended from time to time in Case No. 4761. In support of its request, the utility points out that the agency fee of 1/2 of 1% of the aggregate principal amount of the New Bonds is competitive with normal underwriting discounts and commissions. Moreover, the company estimates savings of approximately $95,000 by the elimination of other issuance costs associated with a public offering, primarily in the forms of printing fees for registration statements and prospectus, SEC registration and fees of rating agencies. PG&E further indicates a desire to expand its external sources of funds with a particular view to the availability of capital in the international markets, an objective which would be consistent with the Commission's observation expressed in the interim opinion related to the company's 1976 rate proceeding. In that opinion the Commission stated that "the time is ripe for more innovative thinking in regard to methods of financing the unprecedented capital expenditures projected for the future." 1/

The Finance Division estimates that after payment of the placement fee and issuance expenses, the effective interest rate of the proposed bond issues would be about 8%. The Division observes that short-term interest rates are now moving upward as indicated by recent increases in the prime rate and the discount rate to levels of 8% and 6-1/2%, respectively; furthermore, long-term bonds rated Aa, such as those of PG&E, are now selling at yields close to 8.80%. Combining these factors with PG&E's present opportunity to establish itself as a reliable borrower

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1/ Page 30, Decision No. 86281, dated August 24, 1976, in Applications Nos. 55509 and 55510. Pacific Gas and Electric Company.

in international markets leads the Finance Division to conclude that the terms of the proposed financing are reasonable. The Operations Division advises that the funds are needed for the purpose specified in the application.

The approximately 8% interest rate negotiated for the New Bonds is more favorable than the rate PG&E would currently expect to obtain from a public offering, and an exemption from the competitive bidding rule would, therefore, be appropriate. A negotiated sale often is not in the public interest, however, and an exemption granted in this instance should not be construed as a modification of the competitive bidding rule initially established in Decision No. 38614 as amended by the Commission in subsequent decisions in Case No. 4761.

After consideration the Commission finds that:

1. The approximate interest rate of 8% negotiated for the proposed private placement of the New Bonds is more favorable than the applicant could presently expect in a public offering at competitive bidding.

2. The proposed private placement would result in lower expenses than would be incurred through a public offering at competitive bidding.

3. The sale of the proposed New Bonds should be exempted from competitive bidding.

4. The proposed New Bonds would be for a proper purpose.

5. Applicant has need for external funds for the purposes set forth in the application.

6. The proposed restricted redemption provision is reasonable.

7. The money, property or labor to be procured or paid for by the bonds herein authorized is reasonably required for the purpose specified herein, which purpose, except as otherwise authorized for accrued interest, is not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition and there is no reason to delay granting the relief requested. On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. The authorization herein granted is for the purpose of this proceeding only, and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. The sale by Pacific Gas and Electric Company of not exceeding $50,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, 7.90% Series dated December 1, 1977, is hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, in Case No. 4761.

2. Pacific Gas and Electric Company may issue and sell up to $50,000,000 of its First and Refunding Mortgage Bonds, 7.90% Series in the principal amounts designated for Series A, B and C and under the terms specified in the application.

3. Pacific Gas and Electric Company shall use the net proceeds to be derived from the sale, exclusive of accrued interest, for the purpose set forth in the application. The accrued interest may be used for such purpose or for general corporate purposes.

4. Within one month after selling the bonds herein authorized, Pacific Gas and Electric Company shall file with the Commission a statement, in lieu of a report under General Order No. 24-B, disclosing the purposes for which it used the bond proceeds.

5. This order shall become effective when Pacific Gas and Electric Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $31,000.

Dated at San Francisco, California, this 7th day of FEBRUARY, 1978.

Robert Batinovich
President

William Symons Jr.

Vernon L. Sturgeon

Richard D. Gravelle

Claire T. Dedrick
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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