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Decision No. _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND)
 ELECTRIC COMPANY to issue and sell)
 through private placement not to)
 exceed \$200,000,000 aggregate)
 principal amount of its First and)
 Refunding Mortgage Bonds, 9-3/8%)
 Series A through T, due on each)
 April 15, 1985 through 2004,)
 respectively.)

Application No. 58338
(Filed September 5, 1978)

O P I N I O N

In this application Pacific Gas and Electric Company (PGandE) seeks authority to issue and sell through private placement \$175,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, 9-3/8%, Series A through T.

PGandE has negotiated for the private placement of the bonds at par with Metropolitan Life Insurance Company, The Equitable Life Assurance Society of the United States, and New York Life Insurance Company. The bonds are to be dated December 1, 1978, and to mature in the amount of \$10,000,000 on each February 15, 1985 through 2004, resulting in an average life of 15-1/2 years. The purchasers have the option to purchase the bonds in principal amounts of \$25,000,000 or more at any time after 15 days' notice during the period January 1979 through April 1979. PGandE will not be permitted to refund the bonds with lower-cost debt prior to February 15, 1989. The company avers that this restricted redemption provision will enable it to obtain funds at a lower cost than would otherwise be possible. The bonds will be secured by PGandE's First and Refunding Mortgage, dated December 1, 1920, as heretofore amended and supplemented.

PGandE reports that its unreimbursed capital expenditures as of June 30, 1978 totalled \$813,533,000, and that the unexpended balance of its General Manager's authorizations for property additions amounted to nearly \$2 billion as of the same date. The total cost of capital additions and improvements to the utility's plants, properties, and facilities for the year 1978 is estimated to be approximately \$845,000,000.

PGandE's capital ratios as of June 30, 1978, and as adjusted to give effect to issuance of the proposed bonds, are set forth below:

	<u>June 30, 1978</u>	<u>Pro Forma</u>
Long-term debt	46.5%	47.9%
Preferred stock	14.9	14.5
Common equity	<u>38.6</u>	<u>37.6</u>
Total	<u>100.0%</u>	<u>100.0%</u>

PGandE intends to use the net proceeds (exclusive of accrued interest) to be derived through the issue and sale of the bonds to reimburse its treasury for capital expenditures and thereafter to repay a portion of short-term notes issued for temporary financing of such additions to its utility plant. Accrued interest, if any, will be used for general corporate purposes.

In Decision No. 89468, dated October 3, 1978 in The Pacific Telephone and Telegraph Company's (TPT&T) Application No. 58310, we discussed the use of debenture proceeds to benefit a wholly-owned utility subsidiary. We prohibited TPT&T from using the debenture proceeds to finance Bell Telephone Company of Nevada (Nevada Bell). PGandE has a number of subsidiaries, some utility operations and others not. However, all of PGandE's subsidiaries are substantially engaged in activity that assists PGandE in meeting its obligation to supply energy in California. Accordingly, it is apparent that the relationship between PGandE and its subsidiaries, compared to that of TPT&T and Nevada Bell, is strikingly different. Nevada Bell does not exist to aid TPT&T in providing California intrastate telephone service.

We are of the opinion that it was not the intent of the Legislature that utilities encumber their utility property or issue indebtedness to secure funds for: 1) nonutility subsidiaries that make no contribution to assist the utility in maintaining or improving its California service; or 2) utility subsidiaries operating outside of California and which provide no service or benefit to California's utility users.

The regulatory scheme, with very specific statutory provisions on the purposes and conditions for utility indebtedness (Section 816 et seq. of the Public Utilities Code), illustrates an overall legislative concern that California have financially sound utilities to serve the public. Accordingly, public utilities, which operate as franchised monopolies to serve the public, are not allowed the same flexibility to incur indebtedness as unregulated businesses; or, put another way, they are not allowed the same latitude to make financially imprudent judgments (for which the captive ratepayer could bear the consequences). Issuing indebtedness, then, for a utility is a special privilege because of the public trust that a public utility serves. Section 817 sets forth the purposes for which a public utility may issue indebtedness or encumber its dedicated property. Those guidelines, to be administered by this Commission, provide some assurance that the financial integrity of utilities will not be jeopardized through unfettered use of their property or credit to procure loans, the proceeds of which are used for imprudent investment in an enterprise wholly unrelated to utility activity.

Given the nature of PGandE's subsidiaries, we need not impose any restrictions precluding use of its First and Refunding Mortgage Bonds proceeds within the PGandE corporate family.

PGandE requests an order of the Commission exempting the proposed issue and sale of the bonds from the Commission's competitive bidding rule, as set forth in Decision No. 38614, dated January 15, 1946, as amended from time to time in Case No. 4761.

The application explains the expected advantages of private placement, which are summarized below:

1. Avoidance of potential usury problems if interest rates continue to rise, and a spreading out of 1979's financing program.
2. Private placement will avoid the necessity for a debt rating by the rating agencies and would allow time for possible improvement in interest coverages later in 1979.
3. The spread of maturity dates over a 20-year period minimizes annual refunding obligations. Such flexibility in terms can only be achieved through private placement.
4. A reduction in costs of issuance of approximately \$698,000 when compared to a public offering.
5. Expansion of PGandE's external sources of funds to include institutional investors.

Offsetting these advantages is the somewhat higher interest cost than that which currently prevails for debt with a similar rating to PGandE's. The applicant believes, however, that because of the expectation of rising interest rates the 9-3/8% rate commencing in 1979 would appear to be as favorable as a public offering with competitive bidding during the first quarter of 1979.

The Finance Division is of the opinion that the proposed private placement is reasonable. We note that this Commission has previously urged PGandE to explore alternatives in regard to methods of financing. The private sale of securities to institutional investors with large amounts of investable funds is one such alternative.

The Operations Division has reviewed PGandE's construction program and agrees with the Finance Division that the proposed financing is appropriate.

After consideration the Commission finds that:

1. The proposed bonds would be for proper purposes.
2. PGandE has need for external funds for the purposes set forth in this proceeding.
3. The sale of the proposed bonds should not be required to be through competitive bidding.
4. The money, property or labor to be procured or paid for by the bonds herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

Thomas J. Graff, General Counsel, Environmental Defense Fund, by a letter dated September 20, 1978, addressed to the President of the Commission, requested among other things that hearings be held by the Commission on private placements. The Commission having considered this matter and in the absence of other opposition finds that a public hearing is not necessary. There is no reason to delay granting the authority requested in the application.

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

This decision is not intended to modify the competitive bidding rule initially established in Decision No. 38614 as amended by the Commission in subsequent decisions in Case No. 4761.

O R D E R

IT IS ORDERED that:

1. The sale by Pacific Gas and Electric Company of not exceeding \$175,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, Series A through T, 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.

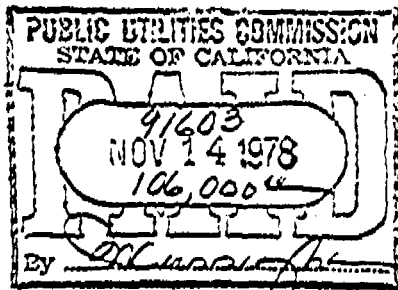
2. Pacific Gas and Electric Company may issue and sell not exceeding \$175,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds on substantially the terms and conditions contemplated by the application.

3. Pacific Gas and Electric Company shall use the net proceeds from the sale of said bonds for the purposes referred to in the application.

4. Pacific Gas and Electric Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

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 \$106,000.

Dated at San Francisco, California, this 9th day of NOVEMBER, 1978.



Robert Bateman
President
William J. ...
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Commissioners