

JAN 8 - 1980

Decision No. 91200**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND
ELECTRIC COMPANY to issue and sell
on a negotiated basis not exceeding
\$250,000,000 aggregate principal
amount of its First and Refunding
Mortgage Bonds, Series 80A.

Application No. 59307
(Filed November 30, 1979)

O P I N I O N

Pacific Gas and Electric Company (PGandE) seeks an order granting it an exemption from the Commission's competitive bidding rule, and authorizing it to issue and sell not exceeding \$250,000,000 aggregate principal amount of its First and Refunding Bonds, Series 80A.

PGandE requests this authority pursuant to Sections 816 through 818 of the Public Utilities Code. Notice of the filing of the application was published on the Commission's Daily Calendar of December 4, 1979.

The bonds to be dated December 1, 1979, would be secured by PGandE's First and Refunding Mortgage as amended by twelve supplemental indentures and would be subject to a restricted redemption provision until December 1, 1984. The utility alleges that the restriction upon early redemption would result in securing funds at a lower interest cost than would otherwise be possible.

PGandE proposes to issue and sell the bonds on a negotiated basis through a nationwide group of underwriters who will agree to purchase all of the bonds pursuant to an underwriting agreement to be entered into between PGandE and the representatives of the several underwriters. The final terms of the underwriting agreement and other terms of the proposed offering, including the price of the bonds, the interest rate, other redemption provisions and the underwriting commissions to be paid, will be determined by negotiation between PGandE and the underwriters shortly before the proposed public offering.

Proceeds from the sale (exclusive of accrued interest) would be used to reimburse the treasury for capital expenditures and thereafter to repay a portion of outstanding short-term notes issued for the purpose of temporarily financing additions to utility plant. Accrued interest would be used for general corporate purposes.

As of September 30, 1979, unreimbursed capital expenditures amounted to \$1,057,331,000 as shown in the following summary:

	<u>Thousands of Dollars</u>
Unreimbursed Capital Expenditures at June 30, 1979, per Exhibit B in Application No. 59052	\$1,041,216
<u>Additions:</u>	
Net Capital Expenditures During the Period July 1, 1979, to September 30, 1979, as Reported in the Monthly Report to the California Public Utilities Commission	\$266,340
<u>Bonds Matured or Purchased for Sinking Fund:</u>	
Purchased for Sinking Fund -- at Cost	7,829
Payments of Bank Loans and Notes Payable	<u>788,866</u>
Total Additions	<u>1,063,035</u>
Subtotal	\$2,104,251
<u>Deductions</u>	
<u>Reimbursement Received:</u>	
Bank Loans and Notes Payable	\$835,171
Common Stock - CPUC Decision No. 87545, Dated July 6, 1977, for 5,000,000 Shares and Common Stock - CPUC Decision No. 88712, dated February 28, 1978, for 2,000,000 Shares (770,012 Shares Sold)	18,044
9% Redeemable \$100 First Preferred Stock - CPUC Decision No. 90702, dated August 28, 1979, for 1,500,000 Shares	150,000
Accumulated Provision for Depreciation - Increase	<u>43,705</u>
Total Deductions	<u>1,046,920</u>
Unreimbursed Capital Expenditures at September 30, 1979	<u>\$1,057,331</u>

The application indicates that PGandE is making extensive additions and improvements to its plants, properties and facilities as required for adequate service to the public. As of September 30, 1979, the unexpended balance of General Manager's authorizations for capital additions and improvements to PGandE's properties under construction amount to \$2,635,556,000. The estimated cost of such capital outlays for the year 1980 is \$880,000,000.

PGandE's capital ratios as of September 30, 1979, and as adjusted to give effect to the proposed bonds, as well as to the issuance in November 1979 of 9,000,000 shares of common stock,^{1/} are set forth below:

	<u>September 30, 1979</u>	<u>Pro Forma</u>
Long-Term Debt	45.6%	46.2%
Preferred Stock	15.5	14.7
Common Equity	<u>38.9</u>	<u>39.1</u>
Total	<u>100.0%</u>	<u>100.0%</u>

PGandE's reasons for requesting exemption from the competitive bidding requirements as set forth in the application are as follows:

- "(1) The continued uncertainty in the financial markets makes it desirable to have the maximum flexibility provided by a negotiated offering to take advantage of short-term changes in the interest rate and market conditions and, if necessary, to adjust the terms of the proposed issue, including the principal amount, maturity date(s) and redemption provisions in response to the requirements of the market at the time of the offering. The flexibility of timing and terms afforded by a negotiated underwriting will increase the likelihood of successfully selling the Bonds.

^{1/} Authorized by Decision No. 90872 of October 10, 1979 in Application No. 59010.

- (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) The current unstable condition of the bond market makes essential preoffering marketing efforts by the prospective underwriters. Investment bankers associated with the negotiating group in a negotiated underwriting are in a position to engage in such efforts, but members of a bidding group are not. Such efforts, together with the greater flexibility in timing and terms, can result in a lower cost of money through a negotiated underwriting than would be obtained if the offering were made by means of competitive bidding."

Although a negotiated sale may allow more flexibility in marketing the proposed bonds and facilitate the sale with less cost to PGandE, a negotiated sale is not always necessarily in the public interest. This decision is not intended to modify the competitive bidding rule as initially set out in Decision No. 38614 (46 Cal.R.R.Com. 281 (1946)), and as amended by the Commission in subsequent decisions in Case No. 4761.

The Revenue Requirements Division has reviewed the application and concludes that the proposed bond sale is necessary to reimburse the treasury for capital expenditures and to refund short-term notes issued for temporary financing of construction. The Division, however, reserves the right to reconsider the reasonableness of construction expenditures in future rate proceedings.

Findings and Conclusions

1. PGandE is a California corporation operating under the jurisdiction of this Commission.
2. The proposed bond issue is for proper purposes.
3. The proposed restricted redemption provision is reasonable.
4. PGandE has need for external funds for the purposes set forth in the application.
5. The money, property or labor to be procured or paid for by the issue of 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.
6. The sale of the proposed bonds should not be required to be through competitive bidding.
7. There is no known opposition to PGandE's application and no reason to delay granting the authority requested.
8. A public hearing is not necessary.
9. On the basis of the foregoing findings we conclude that the application should be granted.

The action taken herein is for the purposes 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 \$250,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, Series 80A, 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 \$250,000,000 aggregate principal amount of its First and Refunding Mortgage Bonds, Series 80A, to a group of underwriters at such price and otherwise such terms and conditions to be negotiated in accordance with 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.

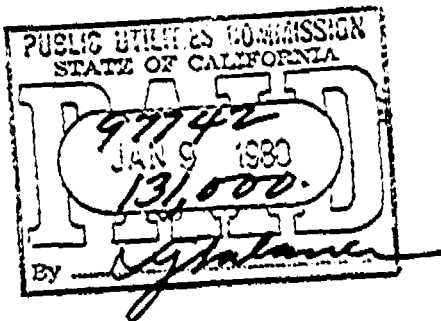
4. Upon determining the maturity date, price and interest rate pertaining to the bonds herein authorized, Pacific Gas and Electric Company shall notify the Commission thereof in writing.

5. As soon as available, Pacific Gas and Electric Company shall file with the Commission three copies of its final prospectus pertaining to said bonds.

6. 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.

7. 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 \$131,000.

Dated JAN 8 - 1980, at San Francisco, California.



John E. Suran President
James L. ...
Richard W. ...
Clarence J. ...
Thomas H. ... Commissioners