

ORIGINAL

Decision 93051 MAY 19 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND)
ELECTRIC COMPANY to issue five)
promissory notes payable in four)
annual installments in an aggregate)
principal amount of \$4,560,000 for)
the acquisition of real property)
to be used for development of wind)
generation facilities.)

Application 60448
(Filed April 15, 1981)

O P I N I O N

Pacific Gas and Electric Company (PGandE) requests authority, under Sections 701 and 816 through 818 of the Public Utilities Code, for the following:

1. To enter into an Agreement for Sale of Real Property (Agreement) to purchase land to be used for the development of wind generation facilities;
2. To issue and sell five Promissory Notes (Notes) each in the amount of \$912,000 for an aggregate principal amount of \$4,560,000 to be repaid in four annual installments; and
3. To exempt the Notes from the Commission's competitive bidding rule.

Notice of the filing of the application appeared on the Commission's Daily Calendar of April 17, 1981. No protests have been received.

PGandE, a California corporation, operates as a public utility under the jurisdiction of this Commission. PGandE engages in the business of generating, purchasing, transmitting, and

selling electricity and purchasing, transporting, transmitting, 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.

In calendar year 1980, PGandE reports in its Income Statement attached to the application as part of Exhibit B that it generated total operating revenues of \$5,069,725,000 and net income of \$524,770,000.

PGandE proposes to enter into an Agreement to purchase from Kenneth W. Swett, Leland B. Swett, Evelyn A. Swett, Dorothy Swett Hammer, and Linda Swett Goodrich (Sellers) land referred to as the Swett Ranch. Each of the Sellers owns an individual one-fifth interest in the ranch. The Swett Ranch is described as consisting of approximately 3,530 acres, more or less. It is located approximately seven miles east of Vallejo in Solano County. A detailed description of the land and a map of the ranch are attached to the application as Exhibit C. A copy of the Agreement was attached to a letter dated April 17, 1981, received from PGandE's attorney.

The Agreement sets forth the total price for the property acquisition at \$5,700,000. On March 25, 1981, PGandE deposited \$100,000 as earnest money^{1/} and as a deposit in an escrow account.

^{1/} Earnest money differs from down payment in that PGandE stands to lose \$50,000 if the Commission fails to grant the authority requested and could lose up to \$100,000 if for some reason PGandE fails to complete the contract.

The Agreement provides that payment will be on a deferred basis: A \$1,140,000 down payment at the close of escrow (the \$100,000 deposit will be credited to the down payment) and the remaining \$4,560,000 in four equal installments. The first installment shall be due and payable one year from the date of the close of escrow and each subsequent annual installment shall be due and payable annually on the escrow closing anniversary. Interest shall be paid at the rate of 12% annually on the unpaid balance. PGandE shall have the right to prepay all or any portion of the unpaid balance.

The Agreement further provides that escrow may close on or before May 10, 1981. If Commission approval is not obtained by that date, then the close of escrow shall be deferred until five days after procurement of Commission approval; but in no event may the close of escrow be delayed after June 10, 1981. If PGandE is unable to consummate the transaction by virtue of its inability to procure the consent of the Commission sufficiently in advance of that date, the Sellers shall receive from the escrow account \$50,000 in liquidated damages.

The application explains that the amount of consideration to be paid for the ranch was determined by analyzing comparable sales, options, and exchanges of similar properties in the general area of the ranch. Albert D. Sousa, member of Appraisal Institute,

from Benicia, California, performed the appraisal. A copy of a letter dated March 16, 1981, from Sousa to PGandE accompanying the appraisal is attached to the application as Exhibit E.

PGandE represents that the Swett Ranch will provide a land area suitable for the development of wind generation facilities. The prospective wind resource appears excellent. The property is also contiguous to the 1,300 acre King Ranch which has already been purchased for purposes of wind generation. Accordingly, the application states there would be economies of scale in the roads, transmission, and maintenance on the adjacent sites.

On April 3, 1981, PGandE executed a letter agreement with Windfarms, Ltd. and the California Department of Water Resources to install and operate wind generation equipment on the King and Swett Ranches. The initial installation is planned for 1983. It is estimated that the installed capacity on the combined site will reach 350 megawatts of electric energy by 1992. Wind generation research will also be undertaken on both properties in preparation for the installation of the wind turbines.

PGandE proposes to issue five Notes in the aggregate principal amount of up to \$4,560,000. Each Note shall be in the principal amount of up to \$912,000 and issued for the benefit of

A.60448 RR/KLH/FS/WPSC

one Seller. PGandE's obligation to perform the terms and conditions of the Agreement is expressly contingent upon its obtaining Commission approval to execute the Notes.

Attached to the application as Exhibit D is a copy of the latest version of the Notes. PGandE represents that there will not be any changes relevant to this application to the terms and conditions set forth in Exhibit D.

A Note in the principal amount of up to \$912,000 would be issued to each of the following: Kenneth W. Swett, Evelyn A. Swett, Leland B. Swett, Dorothy Swett Hammer, and Linda Swett Goodrich. The obligation to be evidenced by each Note will be unsecured.

Each Note would provide for four annual payments of \$228,000 plus accrued interest on the unpaid principal. The first payment is due one year from the close of escrow, and each subsequent annual installment shall be due and payable on each successive anniversary date of close of escrow. If any interest shall not be paid when due, the amount of the unpaid interest shall be added to the principal and thereafter bear interest as the principal. Should PGandE default on the payment of any installment of principal or interest, the whole sum of outstanding principal and interest shall become immediately due at the option of the holder. Exhibit D further provides that PGandE has the right to make payments in advance of the scheduled payment date.

PGandE represents that the execution of the Notes will enable it to acquire the Swett Ranch and thereby facilitate, expedite, and economize its further development of wind generation facilities.

As a condition of the purchase, the Sellers insisted that a portion of PGandE's payment be deferred. The executed notes will evidence PGandE's deferred obligation.

Besides enabling PGandE to consummate the purchase transaction, PGandE contends that execution of the Notes will also be to its financial benefit. In light of the severe cash flow problem PGandE is presently experiencing, deferring payment in this manner is advantageous. Moreover, the interest rate at 12% is presently a relatively attractive cost of capital. Additionally, if circumstances change, PGandE retains the right to make advance payments of principal or interest without penalty.

PGandE requests its Notes be exempt from the Commission's competitive bidding rule promulgated by Decision (D.) 81908, dated September 25, 1973, in Case 4761. According to the rule, competitive bidding is not required for debt security issues of \$5,000,000 or less.

PGandE's capital ratios as of March 31, 1981, are adjusted below to give effect to

1. The proposed issuance and sale of PGandE's Notes in the aggregate principal amount of \$4,560,000;

2. The issuance and sale of PGandE's First and Refunding Mortgage Bonds in the aggregate principal amount of \$250,000,000 (D.92668, dated February 4, 1981, in Application (A.) 60154); and
3. The issuance and sale of PGandE's Pollution Control Bonds in the aggregate principal amount of \$60,000,000 (D.92118, dated August 19, 1980, in A.59803)

and are as follows:

	<u>March 31, 1981</u>	<u>Pro Forma</u>
Long-Term Debt	43.5%	45.4%
Preferred Stock	16.2	15.6
Common Equity	40.3	39.0
	<u>100.0%</u>	<u>100.0%</u>

The staff of the Commission's Revenue Requirements Division has reviewed PGandE's application and its request for authority to issue Notes to acquire real property to be used for development of wind generation facilities. The staff has no objection to the proposed Notes or the acquisition of this real estate for the purpose specified in the application. The Division reserves the right, however, to reconsider the reasonableness of any purchase acquisition and any construction expenditures in future rate proceedings.

Findings of Fact

1. PGandE, a California corporation, operates under the jurisdiction of this Commission.
2. PGandE's execution of the Notes is for a proper purpose.

3. Execution of the Notes will enable PGandE to purchase the Swett Ranch and thereby expedite, facilitate, and encourage its further development of wind generation technology.

4. The property to be procured by PGandE in executing the Notes is reasonably required for the purpose specified, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

5. Under the terms of the Agreement, PGandE must obtain Commission approval of its execution of the Notes and close escrow by June 10, 1981, or forego the opportunity to procure the Swett Ranch. PGandE will also sustain liquidated damages in the amount of \$50,000 if it is unable to close escrow on schedule.

6. Competitive bidding is not required for debt security issues of \$5,000,000 or less.

7. There is no known opposition and no reason to delay granting the authorizations requested herein.

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 authorization 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.

The following order should be effective on the date of signature to enable PGandE to expeditiously issue its Notes.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company, on or after the effective date hereof, may execute and issue Promissory Notes in the aggregate principal amount of up to \$4,560,000, in substantially the same form as is attached to the application as Exhibit D and may consummate the transaction to purchase the real property described in Exhibit C attached to the application.
2. Pacific Gas and Electric Company shall file the reports required by General Order Series 24.

A.60448 RR/FS

3. This order shall become effective when Pacific Gas and Electric Company has paid the \$5,560 fee prescribed by Section 1904(b) of the Public Utilities Code.

Dated MAY 19 1981, at San Francisco, California.

John E. Burns
President
Richard D. Howell
Donald W. Jones
Victor Cabot
Priscilla C. Green
Commissioners

