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Decision 93265 JUL 7 1981 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 $200,000,000; to guarantee the obligations of another in respect of the issuance of securities; and for an exemption from the Competitive Bidding Rule.	Application 60613 (Filed June 2, 1981)

O P I N I O N

Pacific Gas and Electric Company (PGandE) requests authority, under Sections 816 through 818, 830, and 851 of the Public Utilities Code, for the following:

1. To issue, sell, and deliver on a negotiated basis to a wholly owned subsidiary, in connection with a Eurobond offering, its First and Refunding Mortgage Bonds (Bonds) in one or more series, debentures, promissory notes, and/or other evidences of indebtedness in an aggregate principal amount of up to $200,000,000 (collectively referred to as "Debt Securities");

2. To guarantee unconditionally the obligations of PGandE's wholly owned subsidiary in respect to securities issued by the subsidiary; and

3. To have each proposed issue of Debt Securities exempted from the requirements of the Commission's competitive bidding rule.

Notice of the filing of the application was published on the Commission's Daily Calendar of June 5, 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.

For the 12 months ended March 31, 1981, PGandE reports it generated total operating revenues of $5,232,891,000 and net income of $525,220,000.

As of April 30, 1981, PGandE's construction expenditures, unreimbursed from the sale of securities, amounted to $1,041,235,000 as shown in Exhibit B attached to the application. PGandE's unexpended balance of its General Manager's authorizations for capital additions and improvements under construction as of March 31, 1981, totaled $2,816,860,486, of which $1,297,000,000 is estimated to be spent in calendar year 1981. The distribution of the above construction budget is summarized as follows:

Purpose	Amount
Electric Plant	$2,652,643,682
Gas Plant	105,511,171
Water Plant	393,561
Steam Sales	618,499
Utility Plant Held for Future Use	20,517,038
Common Utility Plant	37,176,535
Total	$2,816,860,486

The Commission's Revenue Requirements Division has reviewed PGandE's construction program and has concluded that the utility's estimated construction program is necessary. The Division has no objection to the proposed security issue specified in the application; however, the Division reserves the right to reconsider the reasonableness of any construction expenditures in future rate proceedings.

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

1. The proposed sale of PG&E's Debt Securities in the aggregate principal amount of $200,000,000;

2. The sale of $250,000,000 aggregate principal amount of PGandE's First and Refunding Mortgage Bonds, Series 81A (Decision (D.) 92668, dated February 4, 1981, in Application (A.) 60154); and

3. The sale of $60,000,000 aggregate principal amount of PGandE's First and Refunding Mortgage Bonds, Pollution Control, Series B and C (D.92118, dated August 19, 1980, in A.59803)

4. The proposed sale of PGandE's First and Refunding Mortgage Bonds in the aggregate principal amount of $75,000,000;[1] and

5. The proposed sale of 750,000 shares of First Preferred Stock, $100 par value[2]

are as follows:

	March 31, 1981	Pro Forma
Long-Term Debt	43.3%	46.3%
Preferred Stock	16.2	15.9
Common Equity	40.5	37.8
Total	100.0%	100.0%

PGandE requests authorization to issue, sell, and deliver its Debt Securities in connection with Eurobond offerings by a wholly owned subsidiary. These Debt Securities are proposed to be issued at such times and upon such terms as determined by PGandE's board of directors or executive committee at or immediately prior to the date of their issue in light of then existing market conditions.

1/ Subject of A.60591, filed May 22, 1981, currently before the Commission for decision.

2/ Subject A.60632, filed June 5, 1981, currently before the Commission for decision.

The application indicates that PG&E must establish a special financing structure for Eurobond offerings. The tax laws of the United States impose withholding tax requirements on interest paid by domestic corporations on loans made by certain foreign investors, but the United States has entered into various treaties with foreign countries which reduce or eliminate these withholding requirements. Because European investors are reluctant to make loans to or purchase the debt securities of domestic corporations which are subject to withholding tax, various financing structures have evolved which enable domestic corporations to take advantage of the favorable tax treaties negotiated by the United States. PGandE seeks Commission authorization to participate in such a financing structure.

As PGandE presently contemplates the financing structure, PGandE will organize a wholly owned subsidiary, Pacific Gas and Electric Company, N.V. (Subsidiary), under the laws of the Netherlands Antilles which has favorable tax treaties with the United States. Subsidiary would issue and sell, through one or more offerings to foreign investors, promissory notes, or other debt instruments (Eurobonds). PGandE would then borrow from Subsidiary the net proceeds of these offerings by issuing one or more series of Debt Securities to Subsidiary. The overall net cost of this money to

PGandE will be substantially the same as the cost of the money to Subsidiary after giving effect to the laws of the Netherlands Antilles and the United States.

The maturity date, interest rate, and other terms and conditions of Eurobonds issued by Subsidiary will be negotiated at the time of offering because PGandE is informed that there is no competitive bidding market for Eurobonds. The terms and conditions of each series of Debt Securities issued to the Subsidiary by PGandE will be determined by PGandE and the Subsidiary on the basis of the terms and conditions of such Eurobonds.

Because of the volatility of the Eurobond market, PGandE states that it is impractical at this time to provide the Commission with a meaningful estimate of interest rates or other terms of its contemplated issue of Eurobonds and Debt Securities. However, PGandE states that the Eurobonds would be issued and sold only when such issuances would result in an overall cost of money to PGandE at least as advantageous as issuances of comparable domestic bonds in the U. S. market. A summary of the typical characteristics of a Eurobond issue, provided by PGandE, is attached to the application as Exhibit D.

PGandE contemplates that the Eurobonds and Debt Securities will bear call provisions more favorable than those typically found in domestic bond issues. Call restrictions will be for a period shorter than five years, and the initial call price will command a premium over par of less than one full year's interest payments. The Subsidiary's Eurobonds will mature between 5 and 15 years from their date of issuance.

The financing structure which PGandE contemplates may require that it guarantee the obligations of the Subsidiary evidenced by its Eurobonds. Therefore, PGandE requests authorization to guarantee unconditionally the Subsidiary's payment of up to $200,000,000 aggregate amount of principal, plus interest, premium (if any), and other charges on its Eurobonds. Such a guarantee is common in Eurobond offerings, and it would be in PGandE's best interests to have the flexibility to effect Eurobond offerings in a form which is familiar to foreign investors. The definitive terms and conditions of a guarantee and/or a security arrangement will be determined at the time of, and be consistent with, each offering of Eurobonds.

Each series of Eurobonds, if required to be issued under a security arrangement, would be issued in conformity with the provisions of, and secured by, PGandE's Bonds dated December 1, 1920, as amended. Other terms and conditions will be consistent with the obligations of the Subsidiary.

Request for Exemption from the Competitive Bidding Rule

The nature, mechanics, and timing of Eurobond offerings require an exemption for PGandE's issuances of Debt Securities from the Commission's competitive bidding rule established by our D.38614, as amended, in Case 4761.

Because the interest rate and other terms and conditions of Eurobonds offered by Subsidiary must be determined on a negotiated basis, PGandE's Debt Securities must be privately placed on a negotiated basis with Subsidiary. Consequently, unless the Commission authorizes an exemption from the rule, PGandE will be precluded from participating in Eurobond financings.

In D.91984, dated July 2, 1980, for the San Diego Gas & Electric Company, A.59633, the Commission stated that it will grant an exemption from the competitive bidding rule if a compelling showing is made that such an exemption would be in the best interests of the utility's ratepayers.

We are satisfied that PGandE has made much a compelling showing. The Commission believes that granting an exemption from the competitive bidding rule will be in the best interests of PGandE's ratepayers because Debt Securities, issued in connection with Eurobond offerings, are likely to result in an overall cost of money to PGandE lower than that obtained from comparable competitively bid securities in the domestic market. Such issues will also provide a new source of capital to PGandE which could indirectly result in lowering the costs of other PGandE financings for the benefit of its ratepayers.

The application indicates that there are a number of reasons why Eurobond financing warrants an exemption from the competitive bidding rule. PGandE is engaged in an extensive construction program. PGandE estimates that the gross expenditures required for its proposed construction program during the calendar year 1981 will be approximately $1,297,000,000. In view of these construction expenditures, it is important that PGandE have access to the broadest possible range of capital markets in addition to the domestic market.

The ability to raise capital in the European market will give PGandE additional flexibility and an availability of funds to meet its continuing need for additional capital. Interest rates and other terms and conditions available in the European market are, during certain periods, more favorable than those available in the domestic market. Such periods occur at uncertain intervals and may exist for only a few days or for several weeks. PGandE contemplates causing a placement of Eurobonds during one of these periods.

Granting PGandE an exemption from the competitive bidding rule will give PGandE the ability to cause a placement of debt quickly in the European market.

Because of the unprecedented number of new debt offerings now being predicted for the domestic market, there could be an adverse effect on domestic interest rates and, impliedly, the availability of debt capital. The availability of the European capital market could help lessen the impact of this situation upon the company. Further, by having PGandE's name exposed to international markets, PGandE can be properly positioned to be asked to participate in innovative and economical forms of financing that may be made available in the future by European investors and financial institutions.

Favorable call provisions are typically available in issues of Debt Securities and Eurobonds. Such call provisions can provide PGandE with the flexibility to refund such debt with lower cost offerings in future periods when interest rates are lower. By contrast, the typical call provisions required in domestic bond and debenture offerings impose relatively high penalties and burdensome restrictions on refunding, substantially limiting PGandE's flexibility to refund such debt with lower cost money. The call provisions available in a Eurobond issue are typically not available in the domestic market, but if a bond issue with equivalent call provisions could be sold in the domestic market, purchasers of such a bond issue would demand a higher interest rate than a bond issue without such call provisions.

Debt Securities (other than bonds) issued in connection with Eurobonds do not contain restrictive financial requirements such as those contained in PGandE's Bonds which includes requirements for meeting certain ratios of bond interest charges to earnings and bondable property to outstanding bonds before additional bonds may be issued. By not having such limitations placed upon it, PGandE can take advantage of financing methods and opportunities from which it might otherwise be precluded because of such restrictions.

The Commission has previously encouraged utilities to explore innovative financing methods to give their ratepayers the lowest cost of money available. It is not the intent of the Commission or of the competitive bidding rule to preclude innovative methods of raising capital. In view of the reasons set forth above, this is one of the instances where it is appropriate to grant an exemption from the competitive bidding rule.

Proceeds from the sale of the Debt Securities (exclusive of accrued interest) would be used to partially reimburse the treasury for capital expenditures and thereafter to repay a portion of outstanding short-term notes issued for temporary financing of capital additions and improvements to PGandE's utility plant. Accrued interest, if any, would be used for general corporate purposes.

PGandE is put 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 interest expense if it is determined that the cost of money incurred was not the most prudent. We will also require PGandE to provide us with a showing that the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers. We will require this showing within a reasonable period after the issuance and sale of the proposed securities.

Findings of Facts

1. PGandE, a California corporation, operates under the jurisdiction of this Commission.

2. The proposed Debt Securities would be for proper purposes.

3. PGandE has need for external funds for the purposes set forth in the application.

4. The issue(s) of proposed Debt Securities is (are) not require to be by competitive bidding.

5. 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.

6. There is no known opposition to this 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 security issue is for lawful purposes and the money, property, or labor to be obtained by it are required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company, on or after the effective date of this order may issue, sell, and deliver, on a negotiated basis to Pacific Gas and Electric Company, N.V., a wholly owned Subsidiary of PGandE, one or more series of its First and Refunding

Mortgage Bonds, debentures, promissory notes, other evidences of indebtedness, or any of them, in an aggregate principal amount of up to $200,000,000, with all issues and sales of Debt Securities being upon terms and conditions substantially consistent with those set forth in or contemplated in the application.

2. Pacific Gas and Electric Company may guarantee unconditionally up to $200,000,000 of principal, plus interest, premium (if any) and other charges on Eurobonds issued by Pacific Gas and Electric Company, N.V.

3. Pacific Gas and Electric Company's proposed issue or issues of its Debt Securities is or are exempted from the Commission's competitive bidding rule as set forth in D.38614, dated January 15, 1946, as amended.

4. Pacific Gas and Electric Company shall use the net proceeds from the sale of the Debt Securities for the purposes referred to in the application.

5. Pacific Gas and Electric Company shall file the reports required by General Order Series 24.

6. Within 30 days after the issuance and sale of the Debt Securities, Pacific Gas and Electric Company shall file with the Commission a report showing why the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

7. This order shall be effective upon payment of the $106,000 fee prescribed by Section 1904(b) of the Public Utilities Code.

Dated JUL 7 1981, at San Francisco, California.

John E. Bryson
President

Leonard M. Grimes, Jr.

Victor Calvo

Priscilla C. Grew
Commissioners

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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By J. Higgins