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 Debt Securities and to guarantee the obligations of others in respect of the issuance of Debt Securities, the total aggregate principal amount of such long-term indebtedness and guarantees not to exceed $4 billion; to execute and deliver one or more indentures; to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property; to issue, sell and deliver in one or more series, cumulative Preferred Stock -- $25 Par Value, Preferred Stock -- $100 Par Value, Preference Stock or any combination thereof; to utilize various debt enhancement features; enter into interest rate hedges; and for an exemption from the Commission's Competitive Bidding Rule. (U 39 M)	Application No. 08-05-033 Filed May 22, 2008

PETITION OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M)
FOR MODIFICATION OF DECISION 08-10-013

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March 24, 2010

**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 Debt Securities and to guarantee the obligations of others in respect of the issuance of Debt Securities, the total aggregate principal amount of such long-term indebtedness and guarantees not to exceed $4 billion; to execute and deliver one or more indentures; to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property; to issue, sell and deliver in one or more series, cumulative Preferred Stock -- $25 Par Value, Preferred Stock -- $100 Par Value, Preference Stock or any combination thereof; to utilize various debt enhancement features; enter into interest rate hedges; and for an exemption from the Commission's Competitive Bidding Rule. (U 39 M)	Application No. 08-05-033 Filed May 22, 2008

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I. INTRODUCTION

In accordance with Rule 16.4 of the Commission's Rules of Practice and Procedure, Pacific Gas and Electric Company (PG&E) submits this petition for modification of Decision 08-10-013 titled "Decision Authorizing Pacific Gas and Electric Company To Issuance Up To $4.0 Billion Of Debt And Preferred Stock" (Decision). The Decision authorized PG&E to issue long-term debt and preferred stock up to $4 billion for purposes authorized by Public Utilities Code (PUC) § 817. In this petition, PG&E requests that the Commission modify the purposes for which a limited amount of the long-term debt authorization may be used. Specifically, PG&E

requests permission to use long-term debt authorization under the Decision for purposes chargeable to expense, in an amount that when added with PG&E's outstanding short-term debt would not cause the sum of PG&E's outstanding short-term debt and the long-term debt used for purposes chargeable to expense to exceed the $3.5 billion of unrestricted short-term debt authorization granted in Decision 09-05-002. PG&E also would propose to limit the term of long-term debt authorized for purposes chargeable to expense to a tenor not to exceed 5 years in length.

PG&E makes this request for a Commission order that would permit the requested use of long-term debt authorization under PUC § 818, which allows long-term debt to be used for purposes chargeable to expense only if authorized by Commission order.

II. WHY THIS PETITION COULD NOT HAVE BEEN PRESENTED WITHIN ONE YEAR

Rule 16.4(d) requires that if more than one year has elapsed from the effective date of the decision proposed to be modified, the petition for modification must explain why the petition could not have been presented within one year. As set forth in Nicolas M. Bijur's Declaration, the short-term debt and bank lending markets have continued to be weak, with considerable uncertainty about whether lending capacity at reasonable terms and conditions would be available at the times PG&E may need to borrow. However, Mr. Bijur's Declaration explains that the longer term debt markets have had greater lending capacity and more reasonable terms and conditions, including more favorable financing costs at times, than the shorter-term debt and bank markets. The fact that these conditions in the short and long-term debt markets would persist into 2010, and now apparently may continue, was not evident in the first part of 2009. For that reason, this petition could not have been presented within one year of the effective date of the Decision.

III. JUSTIFICATION FOR THE PETITION'S PROPOSED MODIFICATION

Rule 16.4(b) states a petition for modification must concisely state the justification for the requested relief. PG&E's proposed modification is justified because it would provide PG&E

needed flexibility to use the best source of available debt financing, long-term or short-term, to finance the purposes for which the Commission authorized $3.5 billion in short-term financing authority in Decision 08-12-014. The uses authorized in Decision 08-12-014 include energy procurement-related purposes and working capital fluctuation. This petition's request to modify the Decision would not change the total amount of debt that PG&E could issue for those short-term purposes. The request just seeks authority to enable PG&E to use its long-term debt authority for energy procurement-related purposes and working capital fluctuation in situations when it could not execute in the short-term market due to lack of capacity in that market, or when the costs and terms for short-term debt would be unreasonable. It would not increase the total amount of financing PG&E could use for these purposes.

PG&E monitors the short-term debt and long-term debt markets on a continuous basis. PG&E currently has approximately $1 billion of its short-term debt authorization available to be utilized in the future. However, the continuing weakness in the short-term debt market creates uncertainty about whether PG&E could successfully obtain short-term financing when needed. For instance, PG&E currently has approximately $500 million in a 364-day short-term floating rate note that becomes due in June 2010, and will need to be replaced. The market for short-term 364-day floating rate notes, however, is very thin and PG&E cannot be sure that it will be able to replace its existing note with a short-term note, or other short-term financing. However, the market for longer term 3-year floating rate notes has much more capacity to absorb new offerings. The 5-year fixed rate note market is even more robust with more capacity and interest in lending to potential borrowers. However, 3-year and 5-year notes are long-term debt instruments under PUC § 818 and they cannot be issued for purposes chargeable to expense without a Commission order expressly authorizing that use.

To provide important financing flexibility in the midst of uncertain short-term debt markets, the Commission should grant PG&E's request for limited authority to use its long-term debt authority for debt between 1 to 5 years in duration, subject to a combined limit on use of long-term debt and short-term debt for purposes chargeable to expense that is capped by its unrestricted short-term debt authority (currently $3.5 billion).

The Commission also needs to recognize that the long-term debt subject to these restrictions on short-term use would be serving a short-term purpose, and should not be treated as long-term debt for purposes of PG&E's authorized capital structure. In other words, the long-term debt used for short-term purposes would be filling short-term financing capacity that would have been used for short-term debt issuances under better short-term market conditions. Therefore, for purposes of PG&E's equity, preferred stock and long-term debt regulatory capital structure ratio calculations, the long-term debt issued under the authorization requested in this pleading should not be included.

IV. PROPOSED MODIFICATION TO THE DECISION FOR PG&E'S LONG-TERM DEBT AUTHORIZATION

To carry out the changes requested in this petition, PG&E proposes the following specific modifications to the Decision.

On pages 5 and 6, change the sentence starting at the bottom of page 5 and continuing over to page 6 as follows:

> These purposes are authorized by § 811 and as required by § 818, are not reasonably chargeable to operating expenses or income, <u>except as expressly authorized by order of the Commission. The Commission authorizes PG&E to issue and use the long-term debt authorization granted in this decision for electric energy procurement-related purposes and working capital fluctuations, subject to the limitations adopted in this decision. The long-term debt used for the purposes chargeable to expense shall not have a term exceeding 5 years, and the sum of the long-term debt used for purposes chargeable to expense and the short-term debt outstanding under PG&E's short-term debt authorization shall not exceed the total amount of PG&E's unrestricted short-term debt authorization.</u>
>
> A new finding of fact should be added as follows:
>
> <u>The short-term credit market is weak and short-term lenders, including banks, may not be willing to provide credit at times, or the short-term credit that may be available may be unreasonably priced.</u>

New conclusions of law should be added as follows:

PG&E may use the long-term debt authorization granted in this decision for electric energy procurement-related purposes and working capital fluctuations, subject to the limitations adopted in this decision.

The long-term debt used for the purposes chargeable to expense shall not have a term exceeding 5 years.

The sum of the long-term debt used for purposes chargeable to expense and the short-term debt outstanding under PG&E's short-term debt authorization shall not exceed the total amount of PG&E's unrestricted short-term debt authorization.

The calculation of PG&E's equity, preferred stock and debt ratios for regulatory purposes should not include long-term debt used for purposes chargeable to expense under the authorization granted by this decision.

V. CONCLUSION

For the reasons set forth above, PG&E respectfully requests the Commission to grant this petition and make the specific proposed modifications to the Decision in order to provide PG&E flexibility to access long-term as well as short-term financial markets for energy procurement related purposes and working cash fluctuations.

Respectfully submitted,

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By: /s/
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Dated: March 24, 2010

DECLARATION OF NICHOLAS M. BIJUR

I, Nicholas M. Bijur, state as follows:

1. My business address is PG&E Corporation, One Market, Spear Tower, Suite 2400, San Francisco, CA 94105.

2. I am currently treasurer for Pacific Gas and Electric Company and for PG&E Corporation, responsible for managing the Banking and Money Management Department. In addition to managerial duties, I am responsible for: implementing and executing financing to meet Pacific Gas and Electric Company (the Utility) and PG&E Corporation's capital requirements; managing new and existing debt, preferred stock and common equity to minimize the long-term cost of capital while maintaining access to capital markets; managing cash flows to ensure sufficient liquidity to meet all corporate obligations; managing short-term borrowing and short-term investments; and assisting client departments in implementing necessary bank services, such as electronic account reconciliation, check fraud detection and prevention and alternative customer payment options.

3. I received a BA degree from Bucknell University and an MBA from the Anderson School at UCLA. Prior to joining PG&E in February 2005, I spent four and a half years as an investment banker at Morgan Stanley, most recently as a vice president. Prior to receiving my MBA, I spent three years as an investment banker at Citigroup (formerly Salomon Smith Barney).

4. I am providing this declaration to support Pacific Gas and Electric Company's (PG&E or the Company) proposed petition for modification ("Petition") of Decision 08-10-013 titled "Decision Authorizing Pacific Gas And Electric Company To Issue Up To $4.0 Billion Of Debt And Preferred Stock" (Decision).

5. The Decision authorized PG&E to issue up to $4 billion aggregate amount of long-term debt and preferred stock for purposes authorized by Public Utilities Code (PUC) § 817. For the reasons explained below, PG&E is requesting that the Commission modify the Decision to

allow the proceeds from the issuance of long-term debt to be used for certain short-term purposes chargeable to expense subject to two conditions. The first condition would limit the term of long-term debt authorized for purposes chargeable to expense to a tenor not to exceed five years in length. The second condition would limit the amount of long-term debt used to fund short-term purposes plus the amount of short-term debt that PG&E has obtained to no more than the total short-term debt authorization in effect for PG&E.

6. PG&E is making this proposal to ensure that the Company has sufficient sources of cash that are sustainable and available at a reasonable cost. PG&E's primary historical source of short-term financing has been the bank credit market. Since the second half of 2008, however, the bank credit market has been dysfunctional due to the global recession and the U.S. mortgage crisis, though conditions have lately improved slightly. In light of this situation, PG&E must diversify its sources for funding short-term needs to ensure that it has adequate liquidity to run its operations under any circumstances. This declaration will explain:

- How PG&E has historically used bank lines of credit to provide a supply of short-term financing for PG&E's operations, and how the financial crisis that began in 2008 has changed this traditional supply;
- Why longer-term debt markets (for debt with a tenor greater than one year) can, as is currently the case, have greater capacity, more reasonable terms and conditions and more acceptable financing costs over short-term debt alternatives; and
- The foundation for determining how PG&E should finance its short-term financing needs given the current instability and uncertainty in the bank credit markets.

7. PG&E uses short-term debt (defined as a bank credit facility or any debt with a tenor of one year or less) to fund short-term assets, to temporarily bridge long-term financings in support of capital expenditures, and to support electric procurement hedging activities which require the Company to post collateral. Short-term debt is also used to manage sudden and dramatic changes in fuel prices, seasonal variations in cash flow, financial market turmoil, and emergencies.

8. Bank credit facilities have historically been the primary source of short-term debt for most companies and utilities, PG&E included. A bank's credit commitment allows a company to either issue commercial paper or to borrow from the bank as needed. The total amount and duration of a bank's credit commitment that is available will depend largely on the financial health of the bank, which is regulated, and the bank's risk profile, such as how much exposure a bank wants to have to a particular industry, region or specific company.

9. The California Public Utilities Commission currently provides PG&E with $3.5 billion of unrestricted short-term debt authority and another $500 million that is available under certain circumstances. This authority is currently adequate for PG&E's short-term financing needs. However, given the weakened condition of several of the major U.S. banks and the impact on credit availability as described below, PG&E cannot depend on successfully securing this amount of short-term debt in a timely and cost-effective manner. Thus, PG&E may not have the financing flexibility to meet its short-term debt requirements.

10. After years of available credit, multi-year terms for bank credit facilities that facilitated short-term borrowing when needed, and attractive pricing, the bank credit market reversed course in 2008 due to the collapse of the sub-prime mortgage market and decline in home prices. This eventually led to a global recession and the continuing economic difficulties. Major financial institutions, including leading members of PG&E's own bank group such as Citibank and Bank of America, were forced to write down asset values, raise additional capital and reduce their debt levels. Lehman Brothers, another member of PG&E's bank group, entered bankruptcy and their credit commitment to PG&E was terminated. Ultimately, the U.S. government was forced to step in to stabilize the financial markets by injecting significant capital into the banks through the Troubled Asset Relief Program (TARP) and instituting a number of liquidity facilities aimed at repairing bank balance sheets, increasing available liquidity and restoring investor confidence.

11. While the bank credit market has improved slightly since the height of the financial crisis, it is still far from being stabilized. Due to the financial crisis, the cost of equity capital for most banks has increased dramatically causing banks to become reluctant to make new loans or extend additional credit. Despite government intervention, banks continue to focus primarily on short-dated (less than one year) transactions while charging higher fees that reflect their more recent assessment of costs and risks. As a result, the amount of new investment grade bank loans in the United States declined to $319 billion in 2008 from $658 billion in 2007, a more than 50% decline; there was a further 20% decline from the first half of 2008 to the first half of 2009. The borrowing spread (the additional cost of a bank loan over the London Interbank Offer Rate) for an A-rated borrower rose from approximately 75 basis points (a basis point is 1/100th of one percent or 0.0001) prior to the financial crisis to as high as 300 basis points in early 2009. Finally, banks have also limited the duration for which they are willing to commit to a bank credit facility. Through 2007, banks routinely committed capital for five years with more than half of new bank credit facilities having a maturity of five years. In 2009, there were no new five-year bank credit facilities and over half of all bank credit facilities were for 364 days. Currently, banks are unwilling to commit capital for longer than three years and, in most cases, banks will commit only for one year. This results in significant refinancing risk for borrowers that need access to short-term bank credit markets since there is uncertainty on an annual basis as to whether banks will be willing or able to extend their credit commitments for another year.

12. Furthermore, there has been significant consolidation in the banking industry through bankruptcies, mergers and acquisitions as a result of the financial crisis. Lehman Brothers, which had provided credit to PG&E, fell into bankruptcy in late 2008. At around the same time, several major financial institutions such as Wachovia, Washington Mutual, and Merrill Lynch also were absorbed by healthier banks. Unfortunately, this consolidation of banks has further reduced the universe of potential banks that can provide credit commitments.

13. While the bank credit markets have languished, the debt capital markets have returned to pre-financial crisis levels. The credit market includes banks and other financial

institutions providing a commitment to extend loans. The debt capital market involves the selling of short and long term debt securities (e.g. bonds) to various investors such as individuals, insurance companies, pension funds, money managers, etc.

14. Last year, PG&E took advantage of the more favorable environment in the debt capital markets to fund its short-term debt needs. In June 2009, it was determined that PG&E needed an incremental $500 million of short-term debt to fund margin calls associated with PG&E's electric procurement hedging activities. However, banks were still skittish about lending and the cost of a new bank credit facility, if even available, was prohibitively expensive. Instead, PG&E issued $500 million of 364-day floating rate notes to institutional investors through the debt capital markets. As a result, PG&E was able to access short-term borrowing at a lower cost than through a bank credit facility.

15. Although PG&E was able to access the desired funds, the 364-day floating rate note market is usually not very liquid and bankers have indicated that it would be difficult to raise more than $750 million, even in a strong market. In 2009, less than 2%, or approximately $1.1 billion, of all bonds issued by utility companies were floating rate notes. Since 2005, only two out of 543 utility bond offerings had a maturity of one year or less; one of those two was PG&E's June 2009 364-day floating rate notes transaction. Thus, there can be no assurance PG&E will be able to access the 364-day floating rate market in June 2010 when the original note matures as that market is, at times, unavailable.

16. In contrast, the long-term debt capital markets, in which institutional investors such as insurance companies, pension funds and mutual funds are significant participants, have rebounded and are currently robust. As an example, PG&E recently issued $550 million of 30-year senior notes at the lowest coupon for PG&E since 1966. Furthermore, even at the height of the financial crisis in the fall of 2008, PG&E was able to access the long-term debt capital markets with a $600 million senior note offering. The current strength of the long-term debt capital markets is largely driven by low treasury rates and institutional investors' generally favorable perception of economic prospects.

17. Maintaining liquidity by being able to access the bank credit and capital markets to raise cash in order to finance PG&E's long- and short-term assets is essential for PG&E and providing PG&E with the flexibility to meet its financing needs is critical in light of the recent volatility in the financial markets. At times, such as during the recent credit crisis and currently, the bank markets may be unavailable or prohibitively expensive. In such a situation, it may be sensible to access the long-term debt capital markets for debt with tenors up to five years rather than the bank credit market. Providing PG&E with the ability to satisfy its short-term financing requirements in the long-term capital markets by issuing debt with maturities up to five years provides valuable diversification. With the requested modification, PG&E will not be entirely dependent on the bank market and will have the flexibility to access the least expensive debt on a sustainable basis at the best terms. This additional flexibility will be extremely valuable when PG&E's $1.94 billion credit facility matures in 2012.

I declare under penalty of perjury that the foregoing is true and correct.

Executed at San Francisco, California, this 24th day of March, 2010.

/s/
NICHOLAS M. BIJUR
Treasurer
PACIFIC GAS AND ELECTRIC COMPANY

<u>**CERTIFICATE OF SERVICE**</u>

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is 77 Beale Street, San Francisco, California 94105

On March 25, 2010, I served a true copy of:

**PETITION OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M)
FOR MODIFICATION OF DECISION 08-10-013**

[**XX**] By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service list for **A.08-05-033** with an e-mail address.

[**XX**] By U.S. Mail – by placing the enclosed for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, enclosed in a sealed envelope, with postage fully prepaid, addressed to those parties listed on the official service list for **A.08-05-033** without an e-mail address and the following parties:

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 25th day of March, 2010, at San Francisco, California.

/s/
TAUVELA U'U

THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA SERVICE LIST

Last Updated: October 28, 2008

CPUC DOCKET NO. A0805033

Total number of addressees: 10

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