

Decision PROPOSED DECISION OF ALJ LIRAG (Mailed 12/29/2014)

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 \$6.0 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; and enter into interest rate hedges. (U39M)

Application 14-06-020
(Filed June 24, 2014)

**DECISION AUTHORIZING PACIFIC GAS AND ELECTRIC COMPANY
TO ISSUE UP TO \$6.0 BILLION OF DEBT AND
PREFERRED AND PREFERENCE STOCK**

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**DECISION AUTHORIZING PACIFIC GAS AND ELECTRIC COMPANY
TO ISSUE UP TO \$6.0 BILLION OF DEBT AND
PREFERRED AND PREFERENCE STOCK**

Summary

This decision grants Pacific Gas and Electric Company (PG&E) authority to issue up to \$6.0 billion of new debt securities and new preferred and preference stock. This decision also authorizes PG&E to: 1) encumber accounts receivable and utility property; 2) guarantee the securities or other obligations of PG&E's regulated affiliates and regulated subsidiaries, and governmental entities that issue securities on behalf of PG&E; 3) enter into various enhancement features; and 4) report all debt securities information required by General Order 24-C on a semi-annual basis. We also grant PG&E's motion to file and maintain as confidential Schedules I, II, III and IX-B to the application for a period of three years.

1. Background

On June 24, 2014, Pacific Gas and Electric Company (PG&E) filed Application (A.) 14-06-020 requesting authorization to issue, sell, and deliver, up to \$6.0 billion of one or more series of: (1) long-term debt securities, such as first and refunding mortgage bonds, debentures, notes, overseas indebtedness, foreign currency denominated securities, medium-term notes, preferred securities, other floating or variable rate debt, and credit or loan agreements; (2) preferred stock and preference stock; and (3) other forms of indebtedness. PG&E also seeks authorization to enter into interest rate hedges.

In connection with the issuance of long-term debt securities, preferred and preference stock, and other forms of indebtedness, PG&E requests to:

(1) guarantee the securities of regulated direct or indirect subsidiaries or affiliates

of PG&E or of governmental entities that issue securities on behalf of PG&E;

- (2) execute and deliver one or more indentures or supplemental indentures;
- (3) sell, assign, lease, mortgage, or dispose of or encumber utility property; and
- (4) pledge, dispose of, or encumber accounts receivable in connection with the issuance and sale of debt securities, preferred and preference stock, and other forms of indebtedness.

The application appeared on the Commission's Daily Calendar on July 2, 2014. No protests were filed.

On August 1, 2014, the assigned Administrative Law Judge (ALJ) issued a ruling requesting further information, which PG&E responded to on August 11, 2014.

2. Request

2.1. Overview

In its application, PG&E seeks authorization to issue up to \$6.0 billion of various types of debt securities and preferred and preference stock, until the aggregate principal amount authorized has been fully utilized to meet its future financing needs based on a long-term forecast covering the three-year period from 2015 through 2017. At the time the application was filed, PG&E expected its remaining financing authorization to be sufficient to meet PG&E's financing needs for the remainder of 2014.

The principal amount, form, terms, and conditions of each series of debt securities and preferred or preference stock will be determined by PG&E's board of directors or management according to market conditions at the time of sale or issuance.

In connection with the issuance of preferred and preference stock, PG&E also seeks authorization to guarantee the securities or obligations of affiliates.

PG&E seeks authority to: (1) enter into rate hedges; (2) guarantee the securities of regulated subsidiaries, affiliates, and governmental entities that issue securities on behalf of PG&E; (3) execute and deliver indentures or supplemental indentures; (4) sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property and to pledge, dispose or encumber accounts receivable in connection with the issuance of debt securities; and (5) pledge, dispose or encumber accounts receivable in connection with the issuance of debt securities.

PG&E proposes to use the proceeds from the issuance and sale of debt securities and preferred and preference stock authorized pursuant to this application, after payment or discharge of obligations incurred for expenses incident to such sale and issuance and after payment of accrued interest, if any, for the purposes permitted under Pub. Util. Code § 817 including, without limitation for the following: (1) acquisition of property; (2) construction, completion, extension or improvement of facilities; (3) retirement or refunding of certain previously-issued securities and upon which PG&E paid the fees prescribed by Pub. Util. Code §§ 1904 and 1904.1; and/or (4) reimbursement to PG&E for money it has actually expended from income or from any money in its treasury.¹

¹ Such funds were not secured by or obtained from the issuance of stocks or stock certificates or other evidences of interest or ownership, or bonds, notes, or other evidences of PG&E indebtedness for any of the aforesaid purposes except maintenance of service and replacements. The amounts so reimbursed will become a part of PG&E's general treasury funds.

2.2. Debt Securities

PG&E intends to issue debt securities in the following forms: secured and unsecured debt securities including mortgage bonds, debentures, long-term and medium-term notes; preferred securities; tax-exempt financing; overseas indebtedness; foreign currency denominated securities; direct loans from financial institutions; accounts receivable financing; and floating rate debt.

PG&E also proposes to issue hybrid securities.² Hybrid securities are securities that have characteristics of both debt securities and equity securities.

The various forms of debt securities may bear a fixed, floating, or variable interest rate and may be issued at a certain par value or issued with a discount or

² Hybrid securities are securities that have characteristics of both debt and equity securities. The advantage of these securities over a traditional mix of debt and equity financing is that based on recent guidance by the Internal Revenue Service and rating agencies, most new issuances are structured such that the dividends are tax-deductible to the issuer and the securities are treated, in part, like equity by the rating agencies. Recent issues of hybrids have been structured to offer high equity content (50%-75%) and low default risk in a security that is cost competitive and less dilutive than a similar mix of traditional debt and equity. High equity content treatment by the rating agencies is obtained with long maturities (60 years to perpetuity), the ability to defer dividends, and either an intention or a covenant to replace the security at call or maturity with a security of equal or greater equity content. PG&E plans to treat hybrid securities as preferred equity in its cost of capital proceedings and in determining compliance with its authorized capital structure. Such treatment is consistent with the Commission's past practice with respect to other preferred stock alternatives, such as the Quarterly Income Preferred Securities issued by PG&E. Hybrid securities may be issued as subordinated debt directly to the public or structured as a trust preferred security, with PG&E issuing subordinated debt to a subsidiary, generally in the form of a trust, and the trust issuing preferred securities to the public. The terms of hybrid securities may include, but will not be limited to: (i) restrictive redemption provisions, including, but not limited to, capital replacement provisions, (ii) interest rates which may be fixed, floating, adjustable, deferrable or which may be set by a market auction procedure, (iii) mandatory sinking funds, and (iv) such other provisions as PG&E may deem appropriate in connection with its issuance and sale of hybrid securities. Hybrid securities may be registered with the Securities and Exchange Commission and may be listed on a stock exchange. In Decision (D.) 07-05-018, the Commission approved the use by Southern California Edison Company of hybrid securities.

premium. The debt securities may be issued by PG&E directly or through an affiliate that will lend or transfer proceeds derived therefrom for the benefit of PG&E. The debt securities may be listed in an exchange or sold directly to investors or through underwriters. Sale may be conducted through one or more public offerings or private placements in the domestic markets, or in foreign capital markets.

The debt securities may also be delivered in connection with tax exempt financing or as part of the issuance of trust preferred securities issued through a subsidiary. PG&E may also enter into a series of forward contracts by which a counter party³ would be obligated to pay foreign currency in exchange for United States dollars based on a predetermined formula.

In general, each series of long-term and medium-term debt securities are expected to have a maturity of greater than one year although PG&E may also issue short-term debt securities that have a maturity of 12 months or less within the parameters of Pub. Util. Code § 823(c).⁴ In response to a ruling requesting further information issued by the assigned ALJ, PG&E disclosed that it had specific authority under D.09-05-002,⁵ to increase the amount of short-term debt

³ Counterparties may be commercial or investment banks or a direct principal in need of U.S. dollars.

⁴ Pub. Util. Code § 823(c) provides that "Notwithstanding the provisions of subdivision (b), no public utility as defined in Section 201(e) of the Federal Power Act, shall, without the consent of the commission, issue notes payable at periods of not more than 12 months after the date of issuance of the notes if such notes and all other notes payable at periods of not more than 12 months after the date of issuance of such notes on which such utility is primarily or secondarily liable would exceed in aggregate amount 5 percent of the par value of the other securities then outstanding. In the case of securities having no par value, the par value for the purposes of this subsection shall be the fair market value as of the date of the issue."

⁵ See D.09-05-002 issued on May 7, 2009.

it could issue up to \$4.0 billion, which is beyond the 5% limit provided in Pub. Util. Code § 823(c).

2.3. Preferred and Preference Securities

PG&E also seeks authority to offer, issue, and sell preferred and preference stock in one or more offerings. The method of sale, price, dividend rate, liquidation preferences, and other rights, preferences, privileges, and restrictions are to be determined prior to each offering in consideration of then prevailing market conditions. The rights, preferences and privileges of each series will be fixed by resolution of PG&E's board of directors and a certificate of determination of preferences which includes the contents of such resolution, will be filed with the California Secretary of State.

PG&E anticipates that the terms of the preferred and preference stock may include, but will not be limited to: (1) restrictive redemption provisions; (2) dividend rates which may be fixed, floating, adjustable, or which may be set by a market auction procedure; (3) mandatory sinking funds; and (4) such other provisions as PG&E may deem appropriate in connection with its issuance and sale of the preferred stock and preference stock.

2.4. Securities Enhancement Features

In order to improve the terms and conditions of debt securities and to lower PG&E's overall cost of financing, PG&E proposes to utilize debt securities enhancement features including but not limited to the following: (1) credit enhancements such as letters of credit, standby bond purchase agreements, surety bonds, insurance policies, and other credit support arrangements; (2) early redemption provisions that allow PG&E to redeem or repay debt securities prior to maturity at par, at a premium, or at a stated price; (3) put options; (4) sinking funds; (5) tax exempt financing; and (6) warrants.

PG&E also seeks authorization to enter into various financial instruments for the purpose of managing rate risk. Such instruments can take on a number of forms including the following: (1) interest rate cap agreements; (2) interest rate floor agreements; (3) interest rate collar agreements; (4) swaptions;⁶ (5) interest rate swap agreements; (6) contracts for hedging future issuances such as treasury locks, caps and collar agreements in order to manage the risk of increased interest rates associated with planned financing; (7) fixed or floating rate debt; (8) rate swap contracts to convert fixed interest payments into floating rate payments or vice versa; and (9) convert floating rate payments tied to one index into floating rate payments tied to another index.

PG&E also requests that its use of authority to enter into various financial instruments for the purpose of managing rate risk not be considered as separate debt for purposes of calculating its remaining financing authorization hereunder, since the use of such interest rate management contracts would not affect the amount of the underlying securities issued.

The terms and conditions of swaps and hedges would be determined by PG&E according to market conditions at the time such transactions are negotiated. PG&E will enter into these swap or hedging contracts when a future financing is clearly required. PG&E requests that it be allowed to guarantee interest rate hedges entered into by an affiliate.

PG&E proposes to comply with the following restrictions regarding swap and hedging transactions entered into pursuant to this application:

⁶ A swaption is an option to enter into an interest rate swap. In exchange for an option premium, a buyer gains the right to enter into a specified swap agreement with the issuer on a specified future date.

1. PG&E will separately report all interest income and expense (as recorded for ratemaking purposes) arising from all swap and hedging transactions;
2. Swap and hedging transactions will not exceed at any time 20 percent of PG&E's total long-term debt outstanding;
3. All costs associated with hedging transactions are subject to review in a utility's next regulatory proceeding addressing its cost of capital;
4. If PG&E elects to terminate a swap or hedging transaction before the original maturity or the swap or hedging partner terminates the agreement, all costs associated with the termination hedging transactions will be subject to review in PG&E's next Cost of Capital proceeding; and
5. Swap and hedging transactions, and other derivative financial instruments carrying potential counterparty risk which PG&E receives in connection with long-term debt, must have counterparties with investment grade credit ratings.

In addition, PG&E will maintain and make available, within 30 days of request, the following:

1. A report analyzing swap and hedging transactions including all costs associated with the swap and hedge in comparison to a projection of all-in costs without such interest rate risk management transactions.
2. A complete copy of executed swap and/or hedging agreements and all associated documentation.

3. Discussion

3.1. Public Utilities Code Requirements for Issuance of Securities

PG&E's request is subject to Pub. Util. Code §§ 816, 817, and 818. The Commission has broad discretion under § 816 et seq. to determine if a utility should be authorized to issue debt. Where necessary and appropriate, the

Commission may attach conditions to the issuance of debt and stock to protect and promote the public interest.

Pursuant to Pub. Util. Code § 817, a public utility may only issue and use financing for selected purposes.⁷ Those purposes not listed in Pub. Util. Code § 817 may only be paid with funds from normal utility operations. PG&E proposes that it will use \$5.14 billion of new financing for construction expenditures, acquisition of property, or to reimburse its treasury for money expended for those purposes, and \$860 million of new financing for the retirement, refunding, or reissuance of securities previously issued and upon which PG&E has previously paid the prescribed fees.

Pub. Util. Code § 818 states that no public utility may issue notes or other evidences of indebtedness payable at periods of more than 12 months unless, in addition to the other requirements of law, it shall first have secured from the Commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied. Pub. Util. Code § 818 also requires the Commission, in issuing such an order, to find that the money, property, or labor to be procured or paid for with the proceeds of the debt authorized is reasonably required for the purposes specified in the order and, unless expressly permitted in an order authorizing debt, that those purposes are not, in whole or in part, reasonably chargeable to expenses or to income. These purposes are authorized by § 817 and, as required by § 818, are not reasonably chargeable to operating expenses or income. PG&E has substantiated

⁷ <http://www.leginfo.ca.gov/cgi-bin/waisgate?WAISdocID=3261406119+1+0+0&WAIAction=retrieve>.

that its need for issuance of new debt securities and preferred or preference stock are necessary and are for proper purposes, as discussed in Section 4.2 below.

Since PG&E's request is in compliance with Pub. Util. Code § 816 et seq., we grant it authority to issue new debt securities and preferred or preference stock for the aforementioned purposes and terms, and for the amounts determined in the order of this decision.

3.2. Forecast of Sources and Uses

Applications for authorization to issue debt and other securities are, in part, based on forecasted sources and uses of funds that demonstrate the need for the requested funding.

As part of its application, PG&E provided a forecast of its sources and uses covering the three-year period of 2015-2017. PG&E requested confidential treatment of this forecast. PG&E also provided the aggregate financing authority available from previous decisions, but forecast that it expects to consume these amounts to meet its financial needs for the remainder of 2014.

A review of the information provided shows that the forecasted sources and uses for 2015 to 2017 approximates the amount of new financing being requested, taking into account any remaining financing authority from prior applications.

It is reasonable to authorize PG&E to issue \$6.0 billion of new debt securities and new preferred and preference stock. The new financing will allow PG&E to fund its capital expenditure plans for the three year period of 2015-2017, and for the other proper purposes discussed in Section 3 of this decision, to the extent authorized by Pub. Util. Code § 817(h). PG&E's request is reasonable and supported by the record.

A grant of financing authority to a utility does not obligate the Commission to approve capital projects to be conducted by the utility. This financing authority is limited to providing PG&E with sufficient liquid resources to timely finance its upcoming public utility projects and to reimburse its treasury for the three year period of 2015 to 2017. Review of the reasonableness of capital projects occur as needed through the regulatory process applicable to each capital project. Approval of this financing request does not prejudice any of PG&E's forecasted capital projects for the three year period of 2015 to 2018.

3.3. Types of Securities to be Issued

PG&E requested authority to issue new debt securities, described in Section 3 of this decision, that are similar to the types of debt securities authorized by the Commission in D.12-04-015 issued on April 19, 2012.⁸ PG&E is therefore authorized to issue the types of debt securities detailed in Section 3 of this decision and enumerated in this order, except as noted below.

PG&E requested authority to issue other forms of hybrid securities not specifically mentioned in the application. The Commission cannot authorize something that has not been identified. Therefore, PG&E is authorized to issue only the types of hybrid securities specifically described in this decision.

In its application, PG&E also requested authority to issue new par or stated-value preferred or preference stock as described in Section 3 of this decision that are similar to the types of preferred and preference stock authorized in D.12-04-015.⁹ Therefore, PG&E is authorized to issue the preferred

⁸ See D.12-04-015 at 2 and Ordering Paragraph (OP) 1.

⁹ See D.12-04-015 at 2 and OP 1.

and preference stock detailed in Section 3 of this decision and enumerated in the order herein.

PG&E also requested authority to include terms in its proposed preferred or preference stock “such other provisions as PG&E may deem appropriate” other than those terms and provisions described in its application. Again, the Commission cannot authorize something that has not been identified. Therefore, PG&E is only authorized to issue preferred and preference stock applying the specific terms enumerated in Section 3 of this decision and ordered herein.

In connection with the issuance of debt securities, PG&E requested authority to guarantee the debt securities of a regulated subsidiary of regulated affiliate and to guarantee or secure the obligations of governmental entities. Consistent with D.12-04-015,¹⁰ PG&E is granted authority to issue debt securities to guaranty the debt securities of a regulated subsidiary of regulated affiliate and to guarantee or secure the obligations of governmental entities.

PG&E is reminded that when it issues debt through a regulated affiliate or subsidiary, it must remain in compliance with the Affiliate Transaction Rules adopted in D.06-12-029. In particular, Rule IX,¹¹ which requires large California energy utilities and their holding companies to provide a non-consolidation opinion that demonstrates that the “ring-fencing”¹² around the utility is sufficient

¹⁰ See D.12-04-015 at 2 and OP 9 and 10.

¹¹ See D.06-12-029, Appendix A-3, Rule IX: Protecting the Utility’s Financial Health.

¹² Ring-fencing is defined as the action of a regulated public utility to financially separate itself from a parent/affiliate/subsidiary that engages in non-regulated business, primarily in order to protect ratepayers from financial instability or bankruptcy of the parent/affiliate/subsidiary.

to prevent it from being pulled into the bankruptcy of its parent, affiliate or subsidiary.¹³

Likewise, PG&E is authorized to arrange credit agreements or other credit facilities and to deliver an indenture or supplemental indenture in connection with the issuance of debt securities. These activities are reasonably related to the issuance of debt securities and are consistent with D.12-04-015.

Pursuant to Pub. Util. Code § 824, PG&E must maintain records to identify the specific securities issued pursuant to this decision, and demonstrate that proceeds from such securities have been used only for public utility purposes.

3.4. Encumbrance of Utility Property

PG&E also seeks authority to encumber its utility property in connection with the issuance of debt securities. This request to encumber utility property is subject to Pub. Util. Code § 851 which states, in relevant part, that no utility shall encumber any part of its plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit or right

¹³ See D.06-12-029, Appendix A-3, at 31-33, which in part states:

Ring-Fencing. Within three months of the effective date of the decision adopting this amendment to the Rules, a utility shall obtain a non-consolidation opinion that demonstrates that the ring fencing around the utility is sufficient to prevent the utility from being pulled into bankruptcy of its parent holding company. The utility shall promptly provide the opinion to the Commission. If the current ring-fencing provisions are insufficient to obtain a non-consolidation opinion, the utility shall promptly undertake the following actions:

1. notify the Commission of the inability to obtain a non-consolidation opinion;
2. propose and implement, upon Commission approval, such ring-fencing provisions that are sufficient to prevent the utility from being pulled into the bankruptcy of its parent holding company; and then
3. obtain a non-consolidation opinion.

there under without first having secured from the Commission an order authorizing it to do so.

Consistent with D.12-04-015,¹⁴ and in compliance with Pub. Util. Code § 851, PG&E is authorized to sell, lease, assign, mortgage or otherwise dispose of or encumber its utility property, including its utility plant. The Commission recognizes that such activity may be necessary in connection with the sale and issuance of debt securities. PG&E's request not to deduct the encumbrance of utility property against amounts authorized in this application to the extent that such encumbrance is undertaken as a credit enhancement is granted.

Also consistent with D.12-04-015,¹⁵ PG&E is granted authority to pledge or otherwise dispose or encumber its account receivables in connection with the issuance of debt securities. PG&E's request not to count the encumbrance of PG&E's account receivables against amounts authorized in this application to the extent that such encumbrance is undertaken as a credit enhancement is also granted.

3.5. Securities Enhancements

PG&E requests authorization to include, at its discretion, securities enhancements described in Section 3 of this decision. Such enhancements are designed to improve the terms and conditions of PG&E's new debt securities, and lower the overall cost of money for the benefit of the ratepayers.

The Commission has previously granted PG&E authority, most recently in D.12-04-015.¹⁶ In particular, the Commission granted PG&E authority to: 1) use

¹⁴ See D.12-04-015 at 2 and OP 8.

¹⁵ See D.12-04-015 at 2 and OP 8.

¹⁶ See D.12-04-015 at 2 and OP 11 and 12.

similar securities enhancements as requested in the current application; 2) not consider enhancements as separate debt for purposes of calculating its remaining financing authorization; and 3) comply with selected restrictions regarding swap and hedging transactions entered into.

Therefore, PG&E is authorized to: 1) use the specific securities enhancement features listed in Section 3 and the order herein, since by doing so, PG&E will be able to lower the overall cost of money for the benefit of the ratepayers; 2) comply with the proposed restrictions listed in Section 3 of this decision; and 3) record the financial instruments used to manage rate risk separately from the new debt authorized herein.

PG&E requested flexibility to enter into other hedging and interest rate swap arrangements not specifically described in this Application. However, the Commission cannot authorize something that has not been identified and PG&E is therefore only authorized to enter into hedging and interest rate swap arrangements specified in this decision.

4. Reporting Requirement

General Order (GO) 24-C¹⁷ requires utilities to submit a semi-annual report to the Commission showing receipts and disbursements from the sale of stocks, bonds and other evidences of indebtedness which the utility has been authorized to issue. The report contains, among other things, the following information: (a) the amount of debt issued by the utility during the previous six-month period; (b) the total amount of debt outstanding at the end of the six-month

¹⁷ See GO No. 24-C. <http://www.cpuc.ca.gov/PUC/documents/go.htm>

period; and (c) the purposes for which the utility expended the proceeds realized from the issuance of debt during the prior six-month period.

PG&E provided that it will provide periodic reports pursuant to the requirements in GO 24-C to the Commission staff.

5. Fee

Pub. Util. Code §§ 1904(b) and 1904.1 provides the fees for certificates authorizing the issuance of debt and preferred stock respectively. Sections 1904(b) and 1904.1, however, are not applicable to any issue used to guarantee, take over, refund, discharge, or retire any stock, bond, note, or other evidence of indebtedness on which a fee has previously been paid to the Commission.

Out of the \$6.0 billion proposed financing being sought for by PG&E, \$860 million is expected to be used for the retirement, refund, or reissuance of securities previously issued, and upon which PG&E has previously paid the fees prescribed in sections 1904(b) and 1904.1. Therefore, no fee should be charged for this amount of the proposed financing being requested.

If PG&E intends to use any of the \$860 million described above for purposes other than the retirement, refund or reissuance of indebtedness previously issued, it shall notify the Commission and pay the corresponding fee before making such use. PG&E shall also identify in its next securities report after issuance, how it used the \$860 million of new financing authority earmarked to replace existing long-term debt.

PG&E is likewise requesting that no fee be charged for the \$600 million which it intends to reserve for contingency purposes, until final use thereof is determined. However, because the above amount is included in the financing request, the amount of \$600 million described above should not be excluded

from calculation of the required fee. If any portion of the \$600 million is not availed of, or is used for the retirement, refund, or reissuance of securities previously issued, PG&E can request for a refund of the fee charged with respect to that portion.

Based on the above, the amount of proposed financing that is subject to a fee is \$6.0 billion less \$860 million, which is \$5.14 billion.

Based on the fee calculated in Table 2 below, PG&E must remit a fee in the amount of \$2,576,000 fee to the Commission's Fiscal Office. The authority granted by this order shall not become effective until PG&E remits the required \$2,576,000 fee to the Commission's Fiscal Office.

**Table 1
Calculation of Fee**

Amount of Securities	Rate per \$1,000 of Proposed Securities	Total Fee
\$1,000,000	\$2	\$2,000
\$9,000,000	\$1	\$9,000
\$5,130,000,000	\$0.50	\$2,565,000
TOTAL FEE		\$2,576,000

6. Financial Information

PG&E is placed on notice that the reasonableness of any resulting interest rate and cost of money arising from the issuance of debt securities and preferred or preference stock as well as capital structures, are normally subject to review in the appropriate cost of capital or general rate case proceeding. Therefore, there is no finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes or the appropriate cost of money.

There is also no finding in this decision on the reasonableness of PG&E's proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in a general rate case or specific application. The authority to issue debt securities and preferred or preference stock is distinct from the authority to undertake construction or the right to recover the cost of capital in rates.

7. California Environmental Quality Act

The California Environmental Quality Act (CEQA) applies to projects that require discretionary approval from a governmental agency, unless exempted by statute or regulation. It is long established that the act of ratemaking by the Commission is exempt from CEQA review. As stated in the California Public Resources Code, the "establishment, modification, structuring, restructuring or approval of rates, tolls, fares, or other charges by public agencies" is exempt from CEQA.¹⁸ Likewise, the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant impact on the environment is not a "project" subject to CEQA.¹⁹

This decision does not authorize any capital expenditures or construction projects. Construction projects which PG&E may finance pursuant to the authority granted by this decision must undergo CEQA review as required by CEQA Guidelines Section 4004(b).

¹⁸ Public Resource Code Section 21080(b)(8).

¹⁹ CEQA Guidelines Section 15378(b)(4).

8. Request to File Under Seal

Concurrent with the filing of its current application on June 24, 2014, PG&E filed, pursuant to Pub. Util. Code § 583 and Rule 11.4 of the Commission's Rules of Practice and Procedure,²⁰ a Motion for Leave to File Under Seal Schedules I, II, III and IX-B to the application under seal (Motion). PG&E states that Schedules I, II, III and IX-B contain information regarding PG&E's construction expenditures, cash flow statement, cash requirements statement and capitalization ratios.

On August 1, 2014, the assigned ALJ issued a ruling, in part requiring PG&E to provide a detailed explanation of why the Schedules identified above should be granted confidential treatment pursuant to Rule 11.4.

PG&E filed a response on August 11, 2014 explaining that the Schedules for which PG&E are requesting confidentiality include material, non-public financial forecasts which are subject to change. If made public, the information could harm potential investors that relied upon these financial forecasts. Also, premature disclosure of future cash requirements and capital expenditures can impact PG&E's bidding strategy with lenders and could result in higher service costs.

²⁰ The Commission's Rules of Practice and Procedure are referred to as "Rule" for the remainder of this decision.

PG&E's motion for confidential treatment of the requested Schedules is reasonable, and therefore PG&E's motion to treat Schedules I, II, III and IX-B of the application as confidential material is granted.

9. Conclusion

PG&E should be granted authority to issue up to \$6.0 billion of new debt securities and new preferred and preference stock, encumber accounts receivable and utility property, guarantee the securities or other obligations of PG&E's regulated affiliates and regulated subsidiaries and governmental entities that issue securities on behalf of PG&E, and enter into various enhancement features.

The following, however, identifies the requests specified in PG&E's application that should not be granted:

- a. PG&E's requested authority to issue other forms of hybrid securities not specifically mentioned in the application;
- b. PG&E's requested authority to include terms in its issuance, preferred and preference stock such other provisions as PG&E may deem appropriate other than those terms and conditions described in its application;
- c. PG&E's request to enter into other hedging and interest swap arrangements not specifically described in its application; and
- d. PG&E's request not to be charged a fee for the \$600 million which it intends to reserve for contingency purposes.

10. Categorization and Need for Hearing

Resolution ALJ 176-3339 was issued on July 10, 2014, whereby the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that no hearings were needed. Based on the record, we affirm that this is a ratesetting proceeding, and that a hearing is not necessary.

11. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed by PG&E on January 16, 2015.

PG&E stated that the last sentence of Ordering Paragraph 16 (OP 16) which states that PG&E shall not use ratepayer funds for payment of the application fee should be deleted because these costs are customarily charged to ratepayers. Because cost recovery for debt expense is more properly determinable in PG&E's cost of capital proceeding, the last sentence of OP 16 is deleted.

Additionally, a Motion to Intervene was filed by San Diego Gas & Electric Company and Southern California Gas Company on January 20, 2015. The Motion to Intervene is denied because the last sentence of OP 16 which the two companies seek to have removed from this Decision is already being deleted.

12. Assignment of Proceeding

Carla J. Peterman is the assigned Commissioner and Rafael L. Lirag is the assigned ALJ in this proceeding.

Findings of Fact

1. The requested financing authority of \$6.0 billion of new debt securities and new preferred or preference stock is necessary to provide the external funding required to meet PG&E's projected cash requirements through 2017.
2. PG&E's remaining financing is projected to be exhausted to meet PG&E's projected cash requirements for the remainder of 2014.

3. Pub. Util. Code § 823(c) requires that total short-term debt issued by a utility not exceed five percent of the par value of the other securities of that utility then outstanding, unless the Commission has authorized such.

4. PG&E was authorized by the Commission in D.09-05-002, to issue short term debt of up to \$4.0 billion, pursuant to Pub. Util. Code § 823(c).

5. PG&E plans to use approximately \$860 million of the new financing authority requested to retire existing long term debt.

6. PG&E plans to use \$600 million of the proposed financing proceeds reserved for contingency purposes, for purposes including financing construction expenditures, acquisition of property, and/or financing the early redemption of outstanding securities.

7. The proposed new financing requested by PG&E and the associated money, property, or labor to be procured or paid for with the proceeds of this proposed new financing, are, pursuant to Pub. Util. Code §§ 817 and 818, reasonably required for proper purposes, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

8. Pub. Util. Code § 851, in part, requires a utility to request authority to encumber utility property.

9. The authorizations for types of new securities, securities enhancement features, confidentiality, and other finance related requests herein are substantially similar to those requested by PG&E in A.11-11-001, and decided by the Commission in D.12-04-015 issued on April 19, 2012.

10. Pursuant to Pub. Util. Code § 583 and Rule 11.4, PG&E filed a motion for leave to file and maintain confidential materials under seal, including, Schedules I, II, III and IX-B to the application.

11. Affiliate Transaction Rule IX in Appendix A-3 of D.06-12-029 requires large California energy utilities and their holding companies to provide a non-consolidation opinion that demonstrates that the “ring-fencing” around the utility is sufficient to prevent it from being pulled into the bankruptcy of its parent/affiliate/subsidiary.

12. The necessity or reasonableness for ratemaking purposes of PG&E’s construction budget, cash requirements forecast, and capital structure, are normally reviewed and authorized in general rate cases or cost of capital proceedings.

13. GO 24-C requires utilities to submit a semi-annual report to the Commission that contains, among other things: (a) the amount of debt issued by the utility during the previous six-month period; (b) the total amount of debt outstanding at the end of the six-month period; and (c) the purposes for which the utility expended the proceeds realized from the issuance of debt during the prior six-month period.

14. Notice of A.14-06-020 appeared in the Commission’s Daily Calendar on July 2, 2014, and no protests were filed.

15. Resolution ALJ 176-3284 issued on July 10, 2014, preliminarily categorized A.14-06-020 as ratesetting and determined that a hearing would not be necessary.

Conclusions of Law

1. PG&E should be authorized to issue new debt securities and new par or stated-value preferred and preference stock of up to \$6.0 billion, all of which are for proper purposes (including construction expenditures, acquisition of property, reimbursement of PG&E’s treasury, or for the retirement, refund, or reissuance of previously issued securities) and consistent with the requirements

of Pub. Util. Code §§ 817 and 818, subject to the limitations discussed in Section 10 (Conclusion) of this Decision.

2. PG&E should be authorized to issue new debt securities including: first and refunding mortgage bonds; debentures; long-term and medium-term notes direct with banks, insurance companies or other financial lenders; preferred securities; tax exempt financing; overseas indebtedness; foreign currency denominated securities; direct loans from financial institutions, accounts receivable financing, floating rate debt and hybrid securities. Such securities may be issued with: a fixed, floating or variable rate of interest; secured or unsecured; at par or with a discount or premium; or, to both domestic or foreign investors.

3. PG&E should be authorized to issue hybrid securities with the following terms: (i) restrictive redemption provisions, including, but not limited to, capital replacement provisions, (ii) interest rates which may be fixed, floating, adjustable, deferrable or which may be set by a market auction procedure, (iii) mandatory sinking funds, and (iv) such other provisions as PG&E may deem appropriate in connection with its issuance and sale of hybrid securities.

4. PG&E should be authorized to offer, issue, and sell preferred and preference stock in one or more offerings with the method of sale, price, dividend rate, liquidation preferences, and other rights, preferences, privileges, and restrictions to be determined prior to each offering in consideration of then prevailing market conditions.

5. PG&E should be authorized to issue preferred and preference stock with the following terms: (i) restrictive redemption provisions; (ii) dividend rates which may be fixed, floating, adjustable, or which may be set by a market auction procedure; (iii) mandatory sinking funds; and (iv) such other provisions

as PG&E may deem appropriate in connection with its issuance and sale of the preferred stock.

6. Pursuant to Pub. Util. Code § 851, PG&E should be authorized to encumber (sell, lease, assign, mortgage, pledge) its utility property, including but not limited to accounts receivable and utility property, to secure debt securities, authorized herein.

7. PG&E should be authorized to guarantee the securities and interest rate hedges of its regulated subsidiaries or regulated affiliates, pursuant to Pub. Util. Code § 701.5.

8. PG&E should be authorized to issue debt securities through one or more governmental entities to obtain tax-exempt status for the securities, authorized herein, whenever PG&E's facilities qualify for tax-exempt financing under federal or state law. In this structured financing, PG&E should be authorized to unconditionally guarantee or otherwise secure the obligations of the governmental entities. As a means of securing the governmental entities obligations, PG&E should be authorized to issue and pledge or deliver bonds in an equal principal amount to the governmental entities.

9. PG&E should comply with the Affiliate Transaction Rules set out in Appendix A-3 of D.06-12-029, in particular, Rule IX, which requires large California energy utilities and their holding companies, to provide a non-consolidation opinion that demonstrates that the "ring-fencing" around the utility is sufficient to prevent it from being pulled into the bankruptcy of its parent/affiliate/subsidiary.

10. PG&E should be authorized to use the following kinds of debt enhancements to manage interest rate risks of its debt securities authorized herein: put options; sinking funds; tax-exempt financing; warrants; cap

agreements; floor agreements; collar agreements, swaptions; swap agreements; hedges; issue fixed or floating rate debt; and convert floating rate payments.

11. PG&E should be authorized to not consider securities enhancements authorized herein as separate debt for purposes of calculating its remaining financing authorization hereunder, since the use of such interest rate management contracts would not affect the amount of the underlying securities issued.

12. PG&E should be required to comply with the following restrictions regarding swap and hedging transactions entered into pursuant to this decision:

- a. PG&E will separately report all interest income and expense (as recorded for ratemaking purposes) arising from all swap and hedging transactions in its regular report to the Commission.
- b. Swap and hedging transactions will not exceed at any time 20 percent of PG&E's total long-term debt outstanding.
- c. If PG&E elects to terminate a swap or hedging transaction before the original maturity or the swap or hedging partner terminates the agreement, all costs associated with the termination hedging transactions will be subject to review in PG&E's next Cost of Capital proceeding.
- d. Swap and hedging transactions, and other derivative financial instruments carrying potential counterparty risk which PG&E receives in connection with long-term debt, must have counterparties with investment grade credit ratings.

13. PG&E should maintain and make available, within 30 days of request, the following:

- a. A report analyzing swap and hedging transactions including all costs associated with the swap and hedge in comparison to a projection of all-in costs without such interest rate risk management transactions.
- b. A complete copy of executed swap and/or hedging agreements and all associated documentation.

14. PG&E should file with the Commission, on or before the 25th day of the month following each six-month period, a report under GO 24-C.

15. The amount of \$860 million of the requested financing authority which will be used to refinance existing long-term debt, should be excluded from the computation of the filing fee.

16. PG&E's motion for leave to file and maintain confidential materials under seal, Schedules I, II, III and IX-B to the application, should be granted.

17. The order herein is not a finding of the reasonableness of PG&E's proposed construction plan or expenditures, the resulting plant balances in rate base, the capital structure, or the cost of money, nor does it indicate approval of matters subject to review in a general rate case or other proceedings.

18. PG&E should not use the proceeds from the debt authorized by this decision to fund its capital projects until PG&E has obtained all required Commission approvals for the projects, including any required environmental review under CEQA.

19. PG&E's requested financing authorization does not involve any commitment to any specific project which may result in a potentially significant impact on the environment; thus it is not a project subject to CEQA.

20. PG&E's request is in compliance with Pub. Util. Code §§ 701.5, 816, 817, 818, 824, and 851.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized to issue new debt securities and new par or stated-value preferred and preference stock of up to \$6.0 billion, subject to the limitations discussed in Section 10 of this Decision, all of which are for proper purposes (including construction expenditures, acquisition of property, reimbursement of PG&E treasury, or retirement, refund, or reissuance of previously issued securities).

2. Pacific Gas and Electric Company (PG&E) is authorized to issue new debt securities in compliance with Public Utilities Code Sections 701.5, 816, 817, 818, 824, and 851, and the Affiliate Transaction Rules applicable to PG&E.

3. Pacific Gas and Electric Company is authorized to issue new debt securities including: first and refunding mortgage bonds; debentures; long-term and medium-term notes direct with banks, insurance companies or other financial lenders; preferred securities; tax exempt financing; overseas indebtedness; foreign currency denominated securities; direct loans from financial institutions; accounts receivable financing; floating rate debt; and hybrid securities. Such securities may be issued with: a fixed, floating or variable rate of interest; secured or unsecured; at par or with a discount or premium; or, to both domestic or foreign investors.

4. Pacific Gas and Electric Company (PG&E) is authorized to issue hybrid securities with the following terms: (i) restrictive redemption provisions, including, but not limited to, capital replacement provisions, (ii) interest rates which may be fixed, floating, adjustable, deferrable or which may be set by a market auction procedure, (iii) mandatory sinking funds, and (iv) such other provisions as PG&E may deem appropriate in connection with its issuance and sale of hybrid securities.

5. Pacific Gas and Electric Company is authorized to offer, issue, and sell preferred and preference stock in one or more offerings with the method of sale, price, dividend rate, liquidation preferences, and other rights, preferences, privileges, and restrictions to be determined prior to each offering in consideration of then prevailing market conditions.

6. Pacific Gas and Electric Company (PG&E) is authorized to issue preferred and preference stock with the following terms: (i) restrictive redemption provisions; (ii) dividend rates which may be fixed, floating, adjustable, or which may be set by a market auction procedure; (iii) mandatory sinking funds; and (iv) such other provisions as PG&E may deem appropriate in connection with its issuance and sale of the preferred stock.

7. Pursuant to Public Utilities Code Section 851, Pacific Gas and Electric Company is authorized to encumber (sell, lease, assign, mortgage, pledge) its utility property, including but not limited to accounts receivable and utility property, to secure debt securities, authorized herein.

8. Pacific Gas and Electric Company is authorized to guarantee the securities and interest rate hedges of its regulated subsidiaries or regulated affiliates, pursuant to Public Utilities Code Section 701.5.

9. Pacific Gas and Electric Company (PG&E) is authorized to issue debt securities through one or more governmental entities to obtain tax-exempt status for the securities, authorized herein, whenever PG&E's facilities qualify for tax-exempt financing under federal or state law. In this structured financing, PG&E is authorized to unconditionally guarantee or otherwise secure the obligations of the governmental entities. As a means of securing the governmental entities obligations, PG&E is authorized to issue and pledge or deliver bonds in an equal principal amount to the governmental entities.

10. Pacific Gas and Electric Company is authorized to use the following kinds of debt enhancements to manage interest rate risks of its debt securities authorized herein: put options; sinking funds; tax-exempt financing; warrants; cap agreements; floor agreements; collar agreements; swaptions; swap agreements; hedges; issue fixed or floating rate debt; and convert floating rate payments.

11. Pacific Gas and Electric Company is authorized to not consider securities enhancements authorized herein as separate debt for purposes of calculating its remaining financing authorization hereunder.

12. Pacific Gas and Electric Company (PG&E) must comply with the following restrictions regarding swap and hedging transactions entered into pursuant to this decision:

- a. PG&E will separately report all interest income and expense (as recorded for ratemaking purposes) arising from all swap and hedging transactions in its regular report to the Commission.
- b. Swap and hedging transactions will not exceed at any time 20 percent of PG&E's total long-term debt outstanding.
- c. If PG&E elects to terminate a swap or hedging transaction before the original maturity or the swap or hedging

- partner terminates the agreement, all costs associated with the termination hedging transactions will be subject to review in PG&E's next Cost of Capital proceeding.
- d. Swap and hedging transactions, and other derivative financial instruments carrying potential counterparty risk which PG&E receives in connection with long-term debt, must have counterparties with investment grade credit ratings.
13. Pacific Gas and Electric Company must maintain and make available, within 30 days of request, the following:
- a. A report analyzing swap and hedging transactions including all costs associated with the swap and hedge in comparison to a projection of all-in costs without such interest rate risk management transactions.
 - b. A complete copy of executed swap and/or hedging agreements and all associated documentation.
14. Pacific Gas and Electric Company must file with the Commission, on or before the 25th day of the month following each six-month period, a report pursuant to General Order 24-C.
15. The order herein is not a finding of the reasonableness of Pacific Gas and Electric Company's proposed construction plan or expenditures, the resulting plant balances in rate base, the capital structure, or the cost of money, nor does it indicate approval of matters subject to review in a general rate case or other proceedings.
16. Pacific Gas and Electric Company (PG&E) shall remit a check for \$2,576,000 to the Commission, as required by Public Utilities Code Sections 1904(b) and 1904.1. Such payment should be by check or money order payable to the California Public Utilities Commission and mailed or delivered to the Commission's Fiscal Office at 505 Van Ness Avenue, Room 3000,

San Francisco, CA 94102. PG&E shall write on the face of the check or money order "For deposit to the General Fund per Decision 15-01-XXX."

17. The authority granted by this order shall not become effective until Pacific Gas and Electric Company remits the \$2,576,000 fee within 30 days after the effective date of this decision, to the Commission's Fiscal Office, as detailed in Ordering Paragraph 16 herein.

18. Pacific Gas and Electric Company's (PG&E) motion for leave to file and maintain confidential materials under seal, Schedules I, II, III and IX-B to the application, is granted. The information will remain under seal for a period of three years after the date of this order, and shall not be made accessible or disclosed to anyone other than the Commission staff or on the further order or ruling of the Commission, assigned Commissioner, the assigned Administrative Law Judge (ALJ), the Law and Motion ALJ, the Chief ALJ, or the Assistant Chief ALJ, or as ordered by a court of competent jurisdiction. If PG&E believes that it is necessary for this information to remain under seal for longer than three years, PG&E may file a new motion stating the justification of further withholding of the information from public inspection. This motion shall be filed at least 30 days before the expiration of today's limited protective order.

19. Pacific Gas and Electric Company may not use the proceeds from the debt authorized by this decision to fund its capital projects until Pacific Gas and Electric Company has obtained all required Commission approvals for the projects, including any required environmental review under California Environmental Quality Act.

20. Application 14-06-020 is closed.

This order is effective today.

Dated _____, at San Francisco, California.