

Decision 09-05-002 May 7, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY to increase its authority to finance short-term borrowing needs and procurement-related collateral costs by \$1.5 billion to an aggregate amount not to exceed \$4.0 billion.
(U39M)

Application 08-12-014
(Filed December 18, 2008)

**DECISION AUTHORIZING INCREASE
IN SHORT-TERM BORROWING LIMITS****1. Summary**

We hereby approve the application of Pacific Gas and Electric Company (PG&E) for authority to increase its short-term borrowing authority by an additional \$1.5 billion subject to conditions set forth herein. PG&E contends that it needs authority to issue up to an additional \$1.5 billion of short-term debt for the purposes outlined below. No party opposes the request. The increased short-term borrowing limits will provide PG&E with the flexibility to meet collateral requirements relating to its energy procurement hedging activities, and to facilitate the efficient financing of its authorized capital spending program.

Through Decision (D.) 04-10-037, as modified by D.06-11-006, PG&E was previously authorized to issue up to \$2.5 billion of short-term debt for working capital fluctuation and energy procurement-related purposes including \$500 million which was restricted to certain contingencies. PG&E was thereby authorized to issue a variety of types of short-term debt securities, including direct loans, revolving credit facilities and letter of credit facilities, accounts

receivable financing, commercial paper, and extendible commercial notes. In this proceeding, PG&E requests authority to issue up to \$1.5 billion of additional unrestricted short-term debt using the same types of debt instruments and on the same conditions as authorized by D.04-10-037. With this additional authority, PG&E's aggregate short-term debt authorization will be \$4.0 billion, including the \$500 million which is restricted to certain contingencies.

2. Background

PG&E filed Application 08-12-014 on December 18, 2008. Notice of the filing appeared in the Commission's Daily Calendar on December 23, 2008. No party filed a protest to the application. On January 15, 2009, PG&E filed its Response to the Commission Staff Standing Data Request in support of its application (Response). The Response included a series of financial tables summarizing PG&E's projected construction expenditures, cash flows, operating income, capitalization ratios, and short-term debt requirements.

The Commission preliminarily categorized this proceeding as ratesetting and determined that an evidentiary hearing would not be necessary. Based on the record of this proceeding, we affirm this is a ratesetting proceeding and no hearing is necessary.

3. Discussion

The Commission has broad discretion to determine if a utility should be authorized to issue short-term debt pursuant to Pub. Util. Code § 816, *et seq.*¹ The primary standard used by the Commission is whether a utility has demonstrated

¹ All statutory references are to the Cal. Pub. Util. Code.

a reasonable need to issue short-term debt for proper purposes.² Where necessary and appropriate, the Commission may attach conditions to the issuance of short-term debt in order to protect and promote the public interest.

We conclude that granting PG&E the requested authority for additional short-term debt up to \$1.5 billion is reasonable. With the additional capacity to borrow \$1.5 billion of short-term debt, PG&E should be able to maintain sufficient financial reserves to cope with events that temporarily reduce cash remittances from customers. Because the frequency and magnitude of such events is inherently uncertain, we must use our experience and judgment to determine the amount of slack financial capacity. In this particular situation, we conclude that the additional short-term debt borrowing capacity should provide an adequate financial cushion for many scenarios.

PG&E claims additional short-term debt capacity is needed to provide cash collateral to counterparties in connection with various energy procurement transactions, including electric power and natural gas hedges, electric power and gas purchases, and power plant tolling contracts. Since 2006, when PG&E's previous short-term financing authority was granted in D.06-11-006, PG&E has executed financial swaps to hedge a portion of its power portfolio in addition to the existing gas-related hedges for core gas and electric procurement. Consequently, the amount of collateral required to meet potential collateral calls has increased, in part, because of the added power hedges. PG&E's potential collateral requirements have also been impacted by price volatility. Forward prices for natural gas and power increased in the first half of 2008, but then

² The term "proper purposes" refers to expenditures that are necessary or proper to promote legitimate objects of a public utility of the type concerned. (207 Cal 630 (1929).)

decreased quickly and significantly in the second half of 2008, resulting in significant cash outflow to meet collateral requirements. PG&E states that such extreme movements in forward prices can have potential collateral requirement impacts well over \$1 billion.

PG&E is also requesting an increase in its short-term borrowing authorization partially because of its large anticipated capital spending program over the next several years. Subject in part to regulatory approval, PG&E intends to invest more than \$9 billion over the next three years in replacing and improving aging infrastructure and other capital investments.

PG&E uses short-term debt to temporarily bridge long-term financings in support of capital expenditures. In general, it is easier and more cost-effective to finance accumulating capital needs with short-term debt until they reach a level that is more efficient for sizing and pricing of a long-term financing.

The additional short-term borrowing authority will also provide PG&E with flexibility to avoid issuing long-term securities on onerous terms and will allow PG&E to withstand longer periods of time when the bond markets may be inaccessible. Similarly, debt maturities, opportunities to redeem or repurchase securities at low cost, changes in cash flows, or other unexpected events also may make it necessary or desirable for PG&E to increase its short-term borrowing temporarily to meet cash needs. Short-term borrowing would be reduced when practicable.

Without this additional short-term borrowing authority, PG&E could be forced to lock in higher interest rates for longer terms than necessary simply because it would not have sufficient authority to borrow the funds for a short time period until lower interest rates could be obtained. In such a situation, PG&E and its customers would bear higher borrowing costs than necessary.

PG&E could also be unable to obtain funds to finance its capital spending program at the time such funds are needed, which could result in decreased reliability and/or reduced customer service.

Accordingly, we hereby authorize PG&E to issue up to an additional \$1.5 billion of short-term debt, including the amount authorized by § 823(c).

4. General Order 24-B

General Order (GO) 24-B requires utilities to submit a monthly report to the Commission that contains, among other things, the following information: (1) the amount of debt issued by the utility during the previous month; (2) the total amount of debt outstanding at the end of the prior month; (3) the purposes for which the utility expended the proceeds realized from the issuance of debt during the prior month; and (4) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt.

In recent years the Commission has routinely authorized utilities to report on a quarterly basis the information required by GO 24-B in order to reduce the utilities' administrative and compliance costs.³ Consistent with this practice, PG&E may report on a quarterly basis the information required by GO 24-B for debt issued pursuant to this opinion, except that PG&E shall report this information on a monthly basis if directed to do so by Commission staff.

This opinion does not address the reasonableness of (1) any expenditures made by PG&E with the proceeds from the short-term debt authorized herein, or

³ See, for example, D.06-05-029, Ordering Paragraph (OP) 6; D.05-05-047, OP 8; D.04-04-041, OP 5; D.04-01-009, OP 11; D.03-12-052, OP 6; D.03-12-004, OP 13; D.03-11-018, OP 13; and D.03-09-020, OP 6.

(2) the cost, rates, terms, or conditions of debt issued by PG&E pursuant to this opinion. These matters will be addressed in other proceedings, as appropriate.

5. Fees

Whenever the Commission authorizes a utility to issue debt, the Commission is required to collect a fee in accordance with § 1904(b). This statute set forth, in relevant part, the formula for computing fees as follows:

Section 1904(b): For a certificate authorizing an issue of bonds, notes, or other evidences of indebtedness, two dollars (\$2) for each one thousand dollars (\$1,000) of the face value of the authorized issue or fraction thereof up to one million dollars (\$1,000,000), one dollar (\$1) for each one thousand dollars (\$1,000) over one million dollars (\$1,000,000) and up to ten million dollars (\$10,000,000), and fifty cents (\$0.50) for each one thousand dollars (\$1,000) over ten million dollars (\$10,000,000), with a minimum fee in any case of fifty dollars (\$50). No fee need be paid on such portion of any such issue as may be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has theretofore been paid to the commission.

The following table shows the calculation of the fee that PG&E is required to pay pursuant to § 1904(b) for the \$1.5 billion of additional short-term debt authorized by today’s opinion:

Computation of § 1904(b) Fee for \$1.5 Billion of Additional Short-Term Debt	
Fee on First \$1 Million	\$ 2,000
Fee on \$2 Million - \$10 Million	\$ 9,000
Fee on \$10 Million to \$1.5 Billion	\$745,000
Total Fee	\$756,000

PG&E shall remit the required fee of \$756,000 to the Commission’s Fiscal Office. The authority granted by this opinion shall not become effective until the fee is paid.

6. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

7. Assignment of Proceeding

John A. Bohn is the assigned Commissioner and Thomas R. Pulsifer is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. PG&E was previously authorized by D.04-10-037 to issue up to \$2.5 billion of short-term debt to cover working capital fluctuations and for energy procurement-related purposes.
2. PG&E projects a need to issue up to \$1.5 billion of additional unrestricted short-term debt, using the same types of debt instruments and on the same conditions as was authorized by D.04-10-037.
3. With the additional authority being sought in this proceeding, PG&E's aggregate short-term debt authorization will be \$4 billion, including \$500 million which was previously restricted to certain contingencies.
4. PG&E claims the additional short-term borrowing authority being requested will primarily be needed to provide cash collateral to counterparties in connection with various energy procurement transactions, including electric power and natural gas hedges, electric power and gas purchases, and power plant tolling contracts.
5. The additional short-term borrowing authority being requested will also provide PG&E with flexibility to avoid issuing long-term securities on onerous

terms and to withstand longer periods of time when the bond markets may be inaccessible.

6. PG&E provided a response to the Commission staff standing data request which set forth detailed information regarding projected capital expenditures, cash flows, capital financing, and historical financing authorizations in support of its request for the additional \$1.5 billion in short-term debt borrowing authority.

Conclusions of Law

1. This is a ratesetting proceeding.
2. This is an uncontested matter, and there is no need for hearings.
3. The Commission has broad discretion to determine if a utility should be authorized to issue short-term debt pursuant to § 816, *et seq.*
4. The primary standard used by the Commission is whether a utility has demonstrated a reasonable need to issue short-term debt for proper purposes.
5. Applicant has demonstrated that the request for authorization for an additional \$1.5 billion in short-term debt borrowing capacity is in the public interest and should be granted.
6. This opinion does not address the reasonableness of any expenditures made by PG&E with the proceeds from the short-term debt authorized herein, or the cost, terms, or conditions of such short-term debt.

O R D E R

IT IS ORDERED that:

1. Application (A.) 08-12-014 is granted pursuant to Pub. Util. Code §§ 701.5, 816 - 830, and 851.

2. Pacific Gas and Electric Company is authorized to issue an additional \$1.5 billion of short-term debt.

3. Pacific Gas and Electric Company may report on a quarterly basis all the information required by General Order 24-B with respect to debt issued pursuant to this Order. Pacific Gas and Electric Company shall report this information on a monthly basis if directed to do so by Commission staff.

4. Pursuant to Pub. Util. Code § 1904(b) and § 1904.1, Pacific Gas and Electric Company shall remit to the Commission's Fiscal Office a check for \$756,000. The decision number of this decision shall appear on the face of the check.

5. The authority granted by this decision shall not become effective until Pacific Gas and Electric Company remits the check for \$756,000 to the Commission's Fiscal Office.

6. Application 08-12-014 is closed.

This order is effective today.

Dated May 7, 2009, at San Francisco, California.

MICHAEL R. PEEVEY

President

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG

TIMOTHY ALAN SIMON

Commissioners