

ORIGINAL

Decision No. 39767

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas & Electric Company, a corporation, for authority to enter into a Loan Agreement, to issue notes pursuant thereto, and to issue and pledge its bonds as collateral security to secure a part of said loan.)
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) Application No. 28038
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)

Chickering & Gregory, by W. C. Fox, for applicant.

O P I N I O N

San Diego Gas & Electric Company asks for an order of the Commission authorizing it to enter into an \$8,000,000 loan agreement with a group of banks to issue notes to represent moneys borrowed under such loan agreement, to execute a supplemental indenture, to issue and deposit as collateral \$4,400,000 first mortgage, 2-3/4 percent bonds due December 1, 1981 and to pay a standby charge and fees of counsel for the banks.

Applicant is a public utility, engaged in the business of manufacturing, purchasing and selling electricity in the counties of San Diego and Orange, of manufacturing, purchasing and selling gas in the County of San Diego and, to a limited extent, high and low pressure steam service in the City of San Diego. For the 12 months ending September 30, 1946, applicant reports operating revenues of \$17,754,617.83 segregated as follows:

Electric	\$12,079,730.47
Gas	5,586,832.12
Steam Heat	88,055.24

For 1946 and 1947 applicant estimates its construction expenditures at \$11,898,269. Of this amount \$4,524,569 is by it:

assigned to 1946 and \$7,373,700 to 1947. The principal items of expenditure appear in Exhibit "B". The testimony shows that to October 31, 1946 it expended \$2,512,643, against its 1946 budget. The expenditures would have exceeded that amount, had applicant been able to obtain the necessary equipment, materials and labor.

Applicant's balance sheet as of September 30, 1946 shows current assets of \$5,151,968.86, and current and accrued liabilities of \$4,767,442.67. To carry forward its proposed construction program, applicant finds it necessary to borrow money or issue securities. Because of the uncertainty in the production and delivery of equipment and of the security market, applicant believes it to be inadvisable to undertake at this time any permanent financing through the issue of stocks or bonds. It therefore has concluded to enter into an \$8,000,000 loan agreement with the following banks:

Bank of America, National Trust and Savings Association-----	\$5,500,000
The Bank of California, National Association-----	1,000,000
The Anglo California National Bank of San Francisco-----	500,000
Central Bank-----	400,000
The First National Trust and Savings Bank of San Diego-----	400,000
San Diego Trust & Savings Bank-----	100,000
Security Trust & Savings Bank of San Diego-----	<u>100,000</u>
Total	\$8,000,000

A copy of the loan agreement is on file in this application as Exhibit "C". It provides that the \$8,000,000 may be borrowed in installments of \$800,000 or more at any time on or before June 1, 1948. As applicant borrows money it will issue to the banks its promissory notes. Each of the notes shall bear interest at the rate of 2% per annum from its date until paid or until March 1, 1951 (whichever date is earliest) and from and

after March 1, 1951, each of the notes then remaining unpaid shall bear interest at a rate equivalent to 1% in excess of the New York discount rate for banks which are members of the Federal Reserve System in effect on 90 day commercial paper as published by the Federal Reserve Bank of New York and in effect on the first days of June, September, December and March of each year. The rate of interest shall be in effect for each succeeding three months period commencing on said dates, but subject to the condition that such rate of interest shall not, at any time, be less than 2% nor in excess of 2½%. The interest is payable quarterly. Applicant may pay the notes at any time. If they are paid through funds obtained from the issue of stocks or bonds it need pay no premium upon the payment of the notes. If it obtains the money to pay the notes from banks, insurance companies or finance companies other than through the issue of stocks or bonds, it must pay a premium of not exceeding ¼ of 1% of the face amount of the notes paid. On any sum not borrowed within 60 days after the date of the loan agreement, applicant must pay a standby charge equal in the amount of ½ of 1% of the amount of the unused credit.

Seven of the notes, aggregating in face amount \$800,000, shall mature in consecutive numerical order from lower to higher on March 1 and on September 1 in each of the years 1951 to 1955, both inclusive.

It is applicant's intention to issue, when the security market is favorable, stocks and bonds to pay the notes.

Because of the uncertainty in the production and delivery of equipment, applicant finds it difficult to forecast its cash requirements. Its Vice-President and General Manager

testified that applicant may borrow \$1,600,000 during April 1947, \$800,000 during June, \$800,000 during July, \$800,000 during September, \$800,000 during October, \$1,600,000 during December, and \$1,600,000 during the first five months of 1948. If applicant were to issue any stocks or bonds during the period mentioned it would not borrow all the amounts indicated.

Because of a provision in applicant's Articles of Incorporation, it finds it necessary to deposit with the banks as security for the payment, of part of the loan, \$4,400,000 of its first mortgage bonds. These bonds will be issued under applicant's trust indenture as amended by a first supplemental indenture. A copy of the proposed first supplemental indenture is on file in this application as Exhibit "E". Upon the payment of the loan secured by the deposit of the bonds, the bonds will be returned to the applicant. The order herein does not authorize the sale of the bonds. A copy of the pledge agreement is filed as Exhibit "D".

Applicant asks that the Commission authorize it to pay the standby charge and fee of counsel for the banks to which reference is made in the loan agreement. The order herein will authorize applicant to execute and consummate the loan agreement. Applicant does not propose to use any of the moneys obtained through the execution of the loan agreement to pay the standby charge and counsel fee. Those payments will be made out of the applicant's current income. There seems to be no need for the Commission to authorize payment of those charges.

The Commission finds that the execution of the loan agreement and the issue of notes thereunder should be exempted from the provisions of Decision No. 38614, dated January 15, 1946

ORDER

A public hearing having been held on the above entitled application by Examiner Fankhauser and the Commission having considered the evidence submitted at such hearing and it being of the opinion that the money, property or labor to be procured or paid for by the issue of the notes herein authorized is reasonably required by applicant for the purposes herein stated, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:

1. San Diego Gas & Electric Company may, after the effective date hereof and on or before June 30, 1947, execute a loan agreement in, or substantially in, the same form as the loan agreement filed in this application as Exhibit "C", and issue its notes pursuant to the terms of said loan agreement in the amount of not exceeding \$8,000,000.
2. San Diego Gas & Electric Company may, after the effective date hereof and on or before June 30, 1947, execute a pledge agreement and a first supplemental trust indenture in, or substantially in, the same form as the pledge agreement and first supplemental trust indenture filed in this application as Exhibit "D" and Exhibit "E" respectively.
3. San Diego Gas & Electric Company may, after the effective date hereof and on or before June 1, 1948, issue and deposit as collateral security for the payment of \$4,400,000 of notes issued under said loan agreement, \$4,400,000 of its first mortgage 2-3/4% bonds, due December 1, 1981, provided that upon the payment of said notes, the bonds will be returned to

applicant's treasury and thereafter disposed of only upon the terms and conditions set forth in a further order of the Commission.

4. San Diego Gas & Electric Company shall use the moneys realized through the execution of said loan agreement and issue of notes to finance during 1947 and 1948, construction expenditures which are chargeable to fixed capital accounts under the system of accounts prescribed by the Commission.

5. The authority herein granted will become effective when San Diego Gas & Electric Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Four Thousand Five Hundred (\$4,500.00) Dollars.

6. San Diego Gas & Electric Company shall file with the Commission within thirty (30) days after the execution of said loan agreement, two copies of said loan agreement, two copies of said supplemental trust indenture, and two copies of said pledge agreement, said documents to be filed within thirty (30) days after their execution.

7. San Diego Gas & Electric Company shall file with the Commission a report, or reports, as required by the Commission's General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

Dated at San Francisco, California, this 23rd day of December 1946.

Harold Hills
Justice F. Craven
Francis Dean
John H. Lawrence
A. J. ...

Commissioners

