

ORIGINAL

Decision No. 58980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SOUTHERN CALIFORNIA GAS COMPANY, a )  
corporation, for an order authorizing )  
it to issue and sell \$30,000,000 )  
First Mortgage Bonds, Series D, due ) Application No. 41409  
1984, to mortgage its properties, and )  
to execute and deliver to American )  
Trust Company, as Trustee, a Supple- )  
mental Indenture dated as of )  
October 1, 1959. )  
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L. T. Rice, for applicant;  
Harry L. Dunn, of O'Melveny & Myers, and  
E. E. Squire, for Southern California  
Edison Company, interested parties;  
John F. Donovan, for the staff of  
the Commission.

O P I N I O N

Southern California Gas Company has filed this application for authorization to execute a Supplemental Indenture and to issue and sell \$30,000,000 in principal amount of its First Mortgage Bonds.

The application was filed on August 17, 1959. A public hearing was held before Examiner Coleman in San Francisco on September 3, 1959, at which time the matter was taken under submission.

The proposed bonds will constitute a new series. They will be designated as Series D, due 1984, will mature October 1, 1984, and will be subject to redemption at the option of the company at an initial regular redemption price equivalent to the initial public offering price plus 5% of the principal, provided, however, that none of the Series D bonds may be redeemed prior to October 1,

1964 (other than for sinking fund purposes) directly or indirectly from the proceeds of or in anticipation of any refunding operation involving the incurring of debt which has an interest cost to the company expressed as a percentage and computed in accordance with general financial practices of less than the interest cost to the company of the said Series D bonds. Applicant proposes to offer the \$30,000,000 of bonds for sale at competitive bidding at a price of not less than the principal amount, plus accrued interest, the successful bid to determine the interest rate.

The purpose of the proposed financing is to provide applicant with funds to pay and discharge short-term debt to Pacific Lighting Corporation, to pay costs incurred or to be incurred for the acquisition of property and the construction, completion, extension or improvement of applicant's property or facilities, and for the reimbursement of its treasury. Applicant asserts that its short-term indebtedness to Pacific Lighting Corporation will aggregate \$3,000,000 by October 1, 1959, and it estimates expenditures for tangible fixed capital during the years 1959 and 1960 at \$71,100,000 as shown in some detail in Exhibit C. A summary statement of applicant's estimated cash requirements and sources of funds is as follows:

Cash Requirements

Estimated cash requirements to finance gross additions and betterments in 1959 and 1960	\$71,100,000
Remainder of cash sinking fund requirement for 1959	40,000
Cash sinking fund requirement for 1960	<u>4,180,000</u>
Total required	<u>\$75,320,000</u>

Source of Funds

Estimated minimum gross proceeds of bond issue	\$30,000,000
Depreciation reserve funds (estimated)	21,860,000
Receivable balance due from Pacific Lighting Corporation at January 1, 1959	6,413,000
Remainder, to be provided partly by surplus funds and principally from short-term borrowings from Pacific Lighting Corporation or the issue of securities in 1960	<u>17,047,000</u>
Total	<u>\$75,320,000</u>

Applicant's capital ratios as of June 30, 1959, and as adjusted to give effect to the proposed bond issue, are as follows:

	<u>June 30, 1959</u>	<u>Pro Forma</u>
Bonds	43.6%	47.8%
Preferred stock	5.9	5.4
Common stock and surplus	<u>50.5</u>	<u>46.8</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Testimony was given in the proceeding by two financial witnesses. The testimony shows, among other things, that pension funds have been the primary source of applicant's borrowed funds and that an inquiry was made of the 25 largest pension funds which showed that the majority of them would not entertain a public utility bond offering unless it contained a restricted redemption provision, such as that now proposed by applicant, and that the others, without such restriction, would require some inducement in the form of higher interest rates. Two of the funds have required an initial redemption rate at twice the coupon rate of the bonds. The testimony is persuasive that the absence of some restricted

redemption provision would result in higher interest costs and, what probably is more important, in the withdrawal of potentially large bond buyers from the list of prospective purchasers.

We have considered this application and based upon the evidence before us we are of the opinion, and so find, (1) that applicant has need for additional funds to proceed with its construction activities, (2) that applicant will be required to pay a lower interest rate on the bonds it now proposes to issue than it would if the five-year restricted redemption feature were to be deleted, (3) that the ensuing lower financial requirements will inure to the benefit of the customers, and (4) that the money, property or labor to be procured or paid for through the issue of the bonds herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings, we will enter our order granting the application. The authorization granted is for the issue and sale of bonds only and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

#### O R D E R

A public hearing having been held in the above-entitled matter and the Commission being fully advised in the premises,

IT IS HEREBY ORDERED as follows:

1. Southern California Gas Company, on or after the effective date hereof and on or before December 31, 1959, may execute a Supplemental Indenture dated as of October 1, 1959, in, or

substantially in, the same form as that filed in this proceeding as Exhibit B, and may issue and sell at competitive bidding \$30,000,000 aggregate principal amount of its First Mortgage Bonds, Series D, due 1984, at the price and bearing interest at the rate specified in the bid therefor which will result in the lowest cost of money to the applicant.

2. Southern California Gas Company shall publish its invitation for bids for the sale of said bonds not less than five days prior to the date set for the opening of said bids.

3. Southern California Gas Company shall use the proceeds from the sale of its bonds, other than accrued interest, for the payment and discharge of short-term indebtedness to Pacific Lighting Corporation, for the payment of costs incurred or to be incurred for the acquisition of property and for the construction, completion, extension or improvement of its properties or facilities, and for the reimbursement of its treasury. The accrued interest may be used for said purposes or for general corporate purposes.

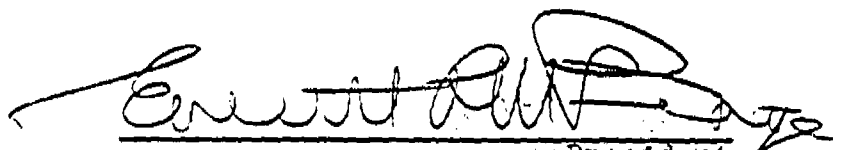
4. Immediately upon awarding the contract for the sale of said \$30,000,000 of bonds, Southern California Gas Company shall file a written report with the Commission showing, as to each bid received, the name of the bidder, the price, the interest rate and the cost of money to applicant based upon such price and interest rate.

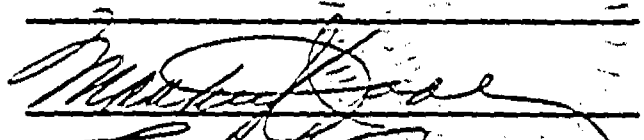
5. Within 30 days after the issue and sale of the bonds herein authorized, Southern California Gas Company shall file a report with the Commission showing the date on which said bonds

were sold, the names of those to whom sold, the amount sold to each and the consideration received, together with three copies of its prospectus.

6. The authority herein granted will become effective when Southern California Gas Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$10,500.

Dated at San Francisco, California, this 15<sup>th</sup> day of September, 1959.

  
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President

  
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L. R. Fox

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Commissioners

Commissioner Theodore H. Jenner, being necessarily absent, did not participate in the disposition of this proceeding.

