

ORIGINAL

Decision No. 67634

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
\$40,000,000 First Mortgage Bonds,
Series F, due 1989, to mortgage
its properties, and to execute
and deliver to Wells Fargo Bank
(formerly named American Trust
Company), as Trustee, a
Supplemental Indenture dated
as of September 1, 1964.

Application No. 46811
Filed July 15, 1964

O P I N I O N

Southern California Gas Company has filed this application requesting authorization to issue and sell First Mortgage Bonds in the aggregate principal amount of \$40,000,000, and to execute a supplemental indenture.

The contemplated issue will constitute a new series to be designated as First Mortgage Bonds, Series F, due 1989. Said bonds will be dated as of September 1, 1964, will mature on September 1, 1989, and will be subject to the five-year restricted redemption provision frequently utilized. Applicant reports that it has investigated the desirability of such provision and it has concluded that inclusion of the restriction will result in a lower annual cost of money and a broader market among institutional investors. Repayment of the new bonds will be secured

by an existing indenture as heretofore supplemented and as further supplemented by a new supplemental indenture to be dated as of September 1, 1964.

Pursuant to the competitive bidding requirements of this Commission, the company plans to issue and sell \$40,000,000 of the new bonds at not less than the principal amount thereof, plus accrued interest, the price and interest rate to be determined by the successful bid. A portion of the proceeds will be used to refund a presently outstanding issue of 5-3/8% First Mortgage Bonds, Series D, due 1984, in the principal amount of \$27,000,000 and to pay short-term indebtedness of \$8,403,500. The remainder of the funds will be applied toward financing acquisition and construction costs and reimbursing the treasury.

Applicant's estimated cash requirements and contemplated sources of capital for the year 1964, as set forth in the application, are summarized as follows:

Cash Requirements

Gross additions and betterments	\$25,795,000
Redemption of First Mortgage Bonds, Series D, due 1984 (\$27,000,000 at 105.33)	28,439,100
Short-term indebtedness to Pacific Lighting Corporation as of January 1, 1964	<u>8,403,500</u>
Total	<u>\$62,637,600</u>

Source of Funds

Minimum gross proceeds of new bond issue	\$40,000,000
Depreciation reserve funds	16,445,000
Reminder to be provided partly from retained earnings and principally from short-term borrowings from Pacific Lighting Corporation	<u>6,192,600</u>
Total	<u>\$62,637,600</u>

The company's capital ratios as of May 31, 1964 and as adjusted to give effect to the proposed bond issue are as follows:

	May 31, 1964	Pro forma
Bonds	43.2%	44.9%
Preferred stock	5.4	5.2
Common stock equity	<u>51.4</u>	<u>49.9</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The Series D bonds to be refunded are dated as of October 1, 1959, mature October 1, 1984, bear interest at the rate of 5-3/8% per annum and will be subject to redemption during the twelve-months' period beginning October 1, 1964, at a premium of 5.33%, plus accrued interest. Applicant seeks permission to charge the call premium of \$1,439,100 and estimated expenses of redemption, less unamortized premium related to the Series D bonds, to Account No. 181, Unamortized Debt Discount and Expense, and to credit against such sum the tax savings which

will result from the refunding. Thereafter, it proposes to amortize the balance, estimated at \$617,000, by monthly charges to income in Account No. 428, Amortization of Debt Discount and Expense, over the approximate twenty-year remaining life of said Series D bonds. This procedure conforms generally with the provisions of the uniform system of accounts adopted by this Commission for natural gas companies.

Applicant asserts that the refunding of Series D bonds will reduce interest and sinking fund requirements by reason, primarily, of the lower interest cost it expects to incur in connection with the new Series F bonds. If the new series were issued at a 4-1/2% interest cost, a savings of 7/8% in interest cost could be achieved which, when related to the \$27,000,000 principal amount of Series D bonds to be redeemed, would result in savings of \$236,250 in the first year the new bonds are outstanding. Similarly, the sinking fund requirements would be reduced \$60,000 annually.

The Commission has considered this matter and finds that: (1) the proposed bond issue is for proper purposes; (2) applicant has need for funds from external sources to meet its capital requirements; (3) applicant will be required to pay a lower interest rate than it would in the absence of a restricted redemption provision; (4) the money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required for the purposes specified herein; and (5) such purposes, except as otherwise authorized for accrued

interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income. A public hearing is not necessary.

On the basis of the foregoing findings we conclude that the application should be granted. The authorization herein granted is for the issue of bonds and the execution of a supplemental indenture and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company may invite the submission of written sealed bids for the purchase of \$40,000,000 in aggregate principal amount of its First Mortgage Bonds, Series F, due 1989, such invitation for bids to be published at least five days prior to the date set for the opening of the bids.

2. Southern California Gas Company may execute and deliver a supplemental indenture in the same form, or in substantially the same form, as that attached to the application as Exhibit B, and may issue and sell said \$40,000,000 of bonds at the price offered in said bids which will result in the lowest annual cost of money calculated as set forth in this application.

3. Southern California Gas Company shall use the proceeds from the issue and sale of such bonds for the retirement, discharge or refunding of its outstanding First Mortgage Bonds, Series D, due 1984, for the payment and discharge of short-term indebtedness to Pacific Lighting Corporation, for the reimbursement of its treasury and the acquisition of property and the construction, completion, extension or improvement of facilities. The accrued interest may be used for said purposes or for general corporate purposes.

4. Southern California Gas Company may follow the procedure outlined in the application and referred to herein for recording and amortizing the net costs of redemption of said Series D bonds.

5. Immediately upon awarding the contract for the sale of \$40,000,000 of its new Series F 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 cost of money to applicant based on such price and interest rate.

6. Within thirty days after the issue and sale of the bonds herein authorized, Southern California Gas Company shall file with the Commission three copies of its prospectus relating to said bonds.

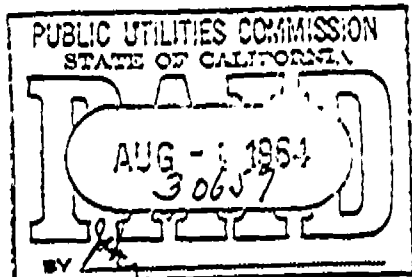
7. Within six months after such issue and sale, Southern California Gas Company shall file with the Commission a statement, in lieu of a report under General Order No. 24-B, disclosing the purposes for which the bond proceeds were used and the journal entries made to record on its books the charges and credits to Account No. 181 as a result of refunding said Series D bonds.

8. This order shall become effective six days after the date hereof, provided Southern California Gas Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$6,250.

Dated at San Francisco, California,
this 14th day of AUGUST, 1964.

Frederick B. Holluff
President
George T. Grover

Commissioners



Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.