

ORIGINAL

Decision No. 77011

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHERN COUNTIES GAS COMPANY OF)
 CALIFORNIA, a corporation, for)
 authority to issue and sell)
 \$32,000,000 First Mortgage Bonds,)
 Series F, Due 1995; to mortgage its)
 properties and to execute and deliver)
 to WELLS FARGO BANK, National)
 Association (formerly American Trust)
 Company) as Trustee, a Supplemental)
 Indenture dated as of May 1, 1970;)
 and for the exemption of such proposed)
 issue of Bonds from the competitive)
 bidding rule established in the)
 Commission's Decisions Nos. 38614,)
 49941 and 75556.)

Application No. 51729
 Filed February 25, 1970

K. R. Edsall and Keith L. Groneman, for applicant.
Roger Arnebergh, City Attorney, by Charles E. Mattson,
 Deputy City Attorney, for City of Los Angeles, interested
 party.
 Robert W. Russell, Chief Engineer and General Manager, by
M. Kroman, for Department of Public Utilities and
 Transportation, City of Los Angeles, interested party.
 Elinore C. Morgan and Gary L. Hall, by Gary L. Hall,
 Staff Counsel, for Legal Division of the Commission staff.
Sidney J. Webb, for Finance and Accounts Division of the
 Commission staff.

O P I N I O N

Southern Counties Gas Company of California seeks an order
 granting it an exemption from the Commission's competitive bidding
 rule, and authorizing it to issue, sell and deliver \$32,000,000

aggregate principal amount of its First Mortgage Bonds, Series F, Due 1995, and to execute and deliver a Supplemental Indenture.

After due notice, a public hearing in the above-entitled matter was held before Examiner Donovan in Los Angeles on March 11, 1970, at the conclusion of which the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant is a wholly owned subsidiary of Pacific Lighting Corporation, and is engaged in the purchase, distribution and sale of natural gas to customers in the central and southern portions of the State of California. For the year 1969, the utility reports total operating revenues and net income of \$234,100,422 and \$10,762,764, respectively, as shown in a portion of Exhibit C, attached to the application. Exhibit No. 1, filed in this proceeding, shows that as of December 31, 1969, the utility's reported net utility plant exceeded its outstanding securities and contributions in aid of construction by \$45,681,220.

After paying and discharging obligations for expenses incident to the issuance and sale of said bonds, applicant proposes to use the bond proceeds, to the extent required, to repay in full an estimated \$18,000,000 of short-term indebtedness representing advances from said Pacific Lighting Corporation to provide temporary funds for the utility's construction and expansion program. Applicant intends to apply the remaining proceeds as needed and available, other than accrued interest, (a) to finance a portion of its 1970 construction and expansion program estimated to total \$19,987,000.

according to Exhibit F attached to the application, (b) to meet a sinking fund requirement pertaining to \$2,863,000 face value of its outstanding bonds, and (c) possibly toward retiring its First Mortgage Bonds, 3% Series, maturing January 1, 1971, depending upon the extent, if any, to which any of the proceeds will remain available for such purpose. The utility intends to apply the accrued interest proceeds to any of the foregoing or other corporate purposes.

The record shows that applicant will deposit the entire bond proceeds with its parent corporation. After repaying said short-term indebtedness, it will draw from the remaining proceeds, as needed, for the other designated purposes. During the period the company has any of the funds remaining on deposit, it will receive interest equivalent to the prevailing rate on short-term commercial paper, treasury bills and similar investments.

As summarized from page 13 of the application, the utility's capitalization percentages as of December 31, 1969, and as adjusted to give effect to the proposed bond issue, are as follows:

	<u>December 31, 1969</u>	<u>Pro Forma</u>
First mortgage bonds	43.0%	49.4%
Common stock equity	<u>57.0</u>	<u>50.6</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The utility contemplates selling the new bonds on a negotiated basis to a nationwide group of investment banking firms. The bonds will be issued pursuant to a Supplemental Indenture dated as of May 1, 1970, and containing a five-year restricted redemption provision similar to that frequently employed in bond offerings at the present time. The company's reasons for requesting exemption from the competitive bidding requirement as summarized from the application, are as follows:

"(1) Current unstable and inflationary financial market conditions make desirable, pre-offering market efforts by the prospective underwriters.

"(2) Greater flexibility in market timing as determined between the Applicant and the Underwriters, can be obtained, as opposed to the fixed time schedule characteristic of competitive bidding procedures.

"(3) A negotiated sale of the proposed issue of New Bonds provides a greater degree of flexibility with respect to the choice of underwriters and dealers, thus enhancing the prospects of sale on favorable terms to the Applicant."

After consideration the Commission finds that:

1. The proposed bond issue is for proper purposes.
2. Applicant has need for funds from external sources for the purposes set forth in this proceeding.
3. Applicant will be required to pay interest at a lower effective rate than it would in the absence of the proposed restricted redemption provision.
4. The proposed Supplemental Indenture would not be adverse to the public interest.

5. 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, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.
6. The issue and sale of the proposed bonds should not be required to be at competitive bidding.

On the basis of the foregoing findings we conclude that the application should be granted. The authorization herein granted is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

Applicant is hereby placed on notice that, if the Commission believes that the negotiated price or interest rate pertaining to the proposed bond issue will result in an excessive effective interest cost, it will take into consideration in future rate proceedings only that which it deems reasonable.

O R D E R

IT IS ORDERED that:

1. The issue and sale by Southern Counties Gas Company of California of not exceeding \$32,000,000 aggregate principal amount of its First Mortgage Bonds, Series F, Due 1995 are hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, in Case No. 4761.

2. Southern Counties Gas Company of California 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 E.

3. Southern Counties Gas Company of California may issue, sell and deliver not exceeding \$32,000,000 aggregate principal amount of its First Mortgage Bonds, Series F, Due 1995, in accordance with the application, and the terms and provisions of an Underwriting Agreement in the same form, or in substantially the same form, as Exhibit No. 3 filed in this proceeding.

4. Southern Counties Gas Company of California shall apply the net proceeds from the sale of said bonds to the purposes set forth in the application.

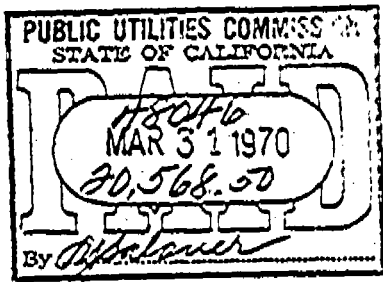
5. On the date Southern Counties Gas Company of California determines the price and interest rate pertaining to the bonds herein authorized, it shall notify the Commission thereof by telegram.

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

7. On or before the 25th day of each month, Southern Counties Gas Company of California shall file with the Commission a statement disclosing the purposes for which, during the preceding month, it expended proceeds attributable to its Series F bond issue. In all other respects, General Order No. 24-B shall be inapplicable.

8. This order shall become effective when Southern Counties Gas Company of California has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$20,568.50.

Dated at San Francisco, California,
this 31st day of MARCH, 1970.



William J. Sproull
President
Augustine
J. P. [unclear]
Tom [unclear]
Veron L. [unclear]
Commissioners