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Decision No. 77758 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY, a corporation, for authority to issue and sell $55,000,000 First Mortgage Bonds, Series H, 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 October 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. 52132 Filed August 14, 1970

Keith L. Groneman, for applicant.
Sidney J. Webb, for the Commission staff.

O P I N I O N

Southern California Gas Company seeks an order granting it an exemption from the Commission's competitive bidding rule, and authorizing it to issue, sell and deliver $55,000,000 aggregate principal amount of its First Mortgage Bonds, Series H, 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 San Francisco on September 3, 1970, at the conclusion of which the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant, a subsidiary of Pacific Lighting Corporation, is the survivor of the July 31, 1970 merger of Southern Counties Gas

Company of California into Southern California Gas Company. The surviving corporation is engaged in the business of purchasing, distributing and selling natural gas to customers in the central and southern portions of the State of California. For the year 1969, the reported total operating revenues and net income of the two merged companies combined amount to $585,412,257 and $31,761,250, respectively.

Reflecting said merger, applicant's assets and liabilities as of July 31, 1970, are summarized from a portion of Exhibit B, attached to the application, as follows:

Assets	
Utility plant less accumulated provisions for depreciation and amortization	$753,930,312
Current and accrued assets	59,112,400
Other assets	5,608,164
Total	$818,650,876

Liabilities	
Common stock	$247,500,000
Preferred stock	21,551,075
Paid-in capital	22,398,629
Capital stock expense	(107,250)
Unappropriated earned surplus	84,885,414
Long-term debt	313,740,000
Bonds (3-1/4% series, due October 1, 1970)	18,109,000
Bonds (3% series, due January 1, 1971)	5,695,000
Other current and accrued liabilities	77,994,021
Customer advances for construction	3,950,832
Contributions in aid of construction	21,388,632
Other liabilities	1,545,523
Total	$818,650,876

After payment and discharge of obligations incurred 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 $30,000,000 of short-term indebtedness representing advances from said Pacific Lighting Corporation to provide temporary funds for the utility's construction and expansion program and payment of $18,109,000 for redemption of the utility's First Mortgage Bonds, 3-1/4% Series, due October 1, 1970. To the extent required, an estimated $8,660,000 of the proceeds will be used to retire bonds for sinking fund purposes, and $5,695,000 will be used for retiring applicant's First Mortgage Bonds, 3% Series due January 1, 1971. The remainder of the net proceeds will be added to working capital, representing reimbursement of treasury for moneys spent for construction and expansion, and will be used to finance a portion of the costs incurred, or to be incurred, in connection with the utility's construction and expansion program. Accrued interest would be applied 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 July 31, 1970, and as adjusted to give effect to the proposed bond issue and to the redemption at maturity of said 3-1/4% and 3% bonds, are as follows:

	July 31, 1970	Pro Forma
Long-term debt	47%	49%
Preferred stock	3	3
Common stock equity	50	48
Total	100%	100%

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 October 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 set forth in the application, are as follows:

> "(1) Current unstable and inflationary financial market conditions make desirable pre-offering market efforts by the prospective underwriters. A shift in the market for high-grade utility bonds from large institutional buyers to relatively small investors seeking high yields emphasizes the need for such efforts. Pre-offering solicitation is more feasible when the underwriting group has assurance that they will be participants in the actual sale of the bonds Conversely, when two or more syndicates are formed in a competitive bidding situation, an individual investment banker, who is necessarily in only one syndicate, does not know whether he will be a participant in the sale until one of the bids is accepted. He therefore is unable to proceed with the same degree of assurance.
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> "(2) Greater flexibility in market timing can be obtained by the Applicant and the Underwriters, 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 number and choice of underwriters and dealers, thus enhancing the prospects of sale on terms more favorable 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 the 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 rate proceedings only that which it deems reasonable.

O R D E R

IT IS ORDERED that:

1. The issue and sale by Southern California Gas Company of not exceeding $55,000,000 aggregate principal amount of its First Mortgage Bonds, Series H, 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 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 D.

3. Southern California Gas Company may issue, sell and deliver not exceeding $55,000,000 aggregate principal amount of its First Mortgage Bonds, Series H, 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 that filed in this proceeding as Exhibit No. 4.

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

5. On the date Southern California Gas Company 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 California Gas Company 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 California Gas Company shall file with the Commission a statement disclosing the purposes for which, during the preceding month, it expended proceeds attributable to its Series H bond issue. In all other respects, General Order No. 24-B shall be inapplicable.

8. This order shall become effective when Southern California Gas Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $17,268.

Dated at San Francisco, California, this 22nd day of SEPTEMBER, 1970.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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17,868.—
By

Chairman

Commissioners

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

Commissioner Thomas Moran, being necessarily absent, did not participate in the disposition of this proceeding.