

Decision No. 79023

ORIGINAL

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 )  
Issue and Sell \$45,000,000 )  
Principal Amount of Its First )  
Mortgage Bonds, Series L Due )  
2001, and for a Deviation from )  
the Competitive Bidding Rule )  
in Decision 38614 as Amended )  
by Decision Nos. 49941 and )  
75556 )

Application No. 52720  
Filed June 30, 1971

Chickering & Gregory, by Leslie P. Jay, Attorney  
at Law, for applicant.  
Sidney J. Webb, for the Commission staff.

O P I N I O N

San Diego Gas & Electric Company seeks an order granting it an exemption from the Commission's competitive bidding rule, and authorizing it (a) to issue and sell \$45,000,000 principal amount of its First Mortgage Bonds, Series L due 2001, and (b) to execute and deliver its Twelfth Supplemental Indenture to be dated as of September 1, 1971.

After due notice, a public hearing on the above-entitled matter was held before Examiner Donovan in San Francisco on July 23, 1971, at the conclusion of which the matter was taken under submission subject to the filing of a copy of the proposed Twelfth Supplemental Indenture, which is now on file in this proceeding as Exhibit No. 5.

Applicant is a California corporation engaged in the business of providing electric service in a portion of Orange County and electric, gas and steam service in portions of San Diego County. As of May 31, 1971, the company reports uncapitalized construction expenditures amounting to \$92,898,735 and an unexpended capital budget balance of \$199,273,300. Prior to the issue and sale of the securities involved in this proceeding, the utility expects to have approximately \$55,000,000 in short-term bank loans and commercial paper outstanding and pertaining to temporary financing of its capital expenditure program.

In order to obtain funds for retiring and discharging, in part, said bank loans and commercial paper, applicant proposes to issue and sell \$45,000,000 aggregate principal amount of its First Mortgage Bonds, Series L due 2001. The new bonds would be secured by an existing indenture as heretofore supplemented and as further supplemented by a proposed Twelfth Supplemental Indenture, the latter to include a five-year restriction on refunding at a cost of money less than the effective interest cost to applicant of the bonds.

The reported capitalization ratios of the company, exclusive of short-term loans, at May 31, 1971, and as adjusted to give effect to the proposed bond issue, are as follows:

	<u>May 31, 1971</u>	<u>Pro Forma</u>
Long-term debt	50.54%	54.99%
Preferred stock	13.96	12.71
Common stock equity	<u>35.50</u>	<u>32.30</u>
Total	<u>100.00%</u>	<u>100.00%</u>

After extensive study the Commission, by Decision No. 38614, dated January 15, 1946, in Case No. 4761 (46 C.R.C. 281) promulgated a rule which requires competitive bidding pertaining to the securities presently under consideration unless the utility makes a due showing that the sale thereof at competitive bidding should not be required. The only material issue in this proceeding is whether or not the company has made a clear and convincing showing that adherence to such rule would be adverse to the utility and its customers.

Upon consideration of the application, testimony and exhibits, we find particularly from analysis of Exhibit No. 3, sponsored by applicant's Vice President - Finance, as follows:

1. The number of competitive and negotiated offerings of debt securities which applicant deems comparable to its proposed offering is as follows:

	<u>Competitive</u>	<u>Negotiated</u>	<u>Total</u>
July - December, 1969	18	4	22
January - June, 1970	20	9	29
July - December, 1970	22	10	32
January - June, 1971	<u>30</u>	<u>5</u>	<u>35</u>
Total	<u>90</u>	<u>28</u>	<u>118</u>

During the first half of 1971 14% of the offerings were through negotiation as compared with 31% during the last half of 1970.

2. The only negotiated offering authorized by this Commission during 1971 which applicant deems comparable to its proposed offering, consists of a \$200,000,000 debenture issue of The Pacific Telephone and Telegraph Company. Because of its size, such offering is not comparable to applicant's proposed \$45,000,000 bond issue.
3. The terms of a \$100,000,000 negotiated bond issue of Southern California Edison Company offered in 1969 were less favorable than those of a similar offering through competitive bidding in 1970, as evidenced by the following:

<u>Offering Date</u>	<u>Offering Yield</u>	<u>Gross Underwriting Spread</u>
October 21, 1969	8.125	0.875
December 3, 1970	7.35	0.850

At approximately the same time in September, 1971 as applicant proposes to sell its Series L bonds, Southern California Edison Company proposes to make another competitive bidding offering of its bonds.

4. Although applicant's Vice President - Finance cited an adverse response to a 1969 offering of New York Telephone Company's bonds, he made no analysis of subsequent bond issues of such company.
5. Competitive bidding is more appropriate in the light of the present debt security market than it was at the time of applicant's negotiated bond offering on February 10, 1970.

On the basis of the application, testimony and Exhibit

No. 5, we further find that:

6. The proposed bond issue is for proper purposes.
7. Applicant has need for external funds for the purposes set forth in this proceeding.

8. Applicant would be required to pay interest at a lower effective rate than it would in the absence of the proposed restricted redemption provision.
9. The proposed supplemental indenture would not be adverse to the public interest.
10. 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.

On the basis of the foregoing ten findings we conclude that (a) applicant has failed to make a clear and convincing showing that a competitive bidding offering of its Series L bonds would be adverse to itself and its customers, and (b) except to the extent that it seeks authority to sell the bonds through negotiation, 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.

O R D E R

IT IS ORDERED that:

1. Insofar as it seeks authority to sell bonds through negotiation the application is denied.
2. San Diego Gas & Electric Company may execute and deliver its Twelfth Supplemental Indenture in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit No. 5.

3. San Diego Gas & Electric Company may invite the submission of written sealed bids for the purchase of not exceeding \$45,000,000 aggregate principal amount of its First Mortgage Bonds, Series L due 2001, such invitation for bids to be published at least five days prior to the date set for the opening of the bids.

4. San Diego Gas & Electric Company may issue and sell, at competitive bidding, not exceeding \$45,000,000 aggregate principal amount of its First Mortgage Bonds, Series L due 2001, at the price offered in a bid which will provide the lowest annual cost of money to applicant.

5. San Diego Gas & Electric Company shall use the net proceeds to be received from the issuance and sale of said bonds, exclusive of accrued interest, for retiring and discharging, in part, short-term indebtedness pertaining to its capital expenditure program. The accrued interest may be used for such purpose or for general corporate purposes.

6. Promptly after awarding the contract for the sale of said bonds, San Diego Gas & Electric 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.

7. As soon as available, San Diego Gas & Electric Company shall file with the Commission three copies of its prospectus pertaining to said bonds.

8. Within one month after issuing and selling the bonds herein authorized, San Diego Gas & Electric Company shall file with the Commission a statement, in lieu of a report under General Order No. 24-B, disclosing the purposes to which the bond proceeds were applied.

9. The effective date of this order is the date hereof.

Dated at San Francisco, California,  
this 10th day of AUGUST, 1971.

[Signature]  
Chairman  
[Signature]  
[Signature]  
[Signature]  
[Signature]  
Commissioners