

Decision No. 79266

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of PACIFIC LIGHTING SERVICE)
COMPANY, a corporation, for)
authority to issue and sell its)
20-year term Sinking Fund)
Debentures, Series C, in an)
amount not to exceed \$30,000,000)
and to execute and deliver to)
WELLS FARGO BANK, National)
Association (formerly American)
Trust Company) as Trustee, a)
Second Supplemental Indenture)
dated as of an appropriate date)
prior to the date of sale; and)
for exemption of such proposed)
issue and sale of debentures)
from the competitive bidding)
rule established in the)
Commission's Decisions Nos.)
33614, 49941 and 75556.)

Application No. 52880
Filed September 22, 1971
and Amendment
Filed October 4, 1971

Keith L. Groneman, Attorney at Law, for applicant.
Robert W. Russell and Manuel Kroman, for Department
of Public Utilities and Transportation, City of
Los Angeles, interested party.
Sidney J. Webb, for the Commission staff.

O P I N I O N

Pacific Lighting Service Company seeks an order
granting it an exemption from the Commission's competitive
bidding rule, and authorizing it (a) to issue, sell and

deliver not exceeding \$30,000,000 aggregate principal amount of its Sinking Fund Debentures, Series C, due 1991, and (b) to execute and deliver its Second Supplemental Indenture.

After due notice, a public hearing in the above-entitled matter was held before Examiner Donovan with Commissioner Holmes in attendance in Los Angeles on October 6, 1971, at the conclusion of which the matter was taken under submission.

Applicant is a California corporation engaged in purchasing, storing, handling, and exchanging natural gas and selling natural gas to Southern California Gas Company for resale by the latter to the public, each company being a subsidiary of Pacific Lighting Corporation. According to the application, applicant also provides management services such as public relations, rates and earnings, legal services, and gas supply for the Pacific Lighting System. For the year 1970, applicant's reported total operating revenues and net income amounted to \$187,811,614 and \$2,824,143, respectively.

On August 31, 1971, applicant's reported indebtedness to Pacific Lighting Corporation amounted to \$27,457,705. As of December 16, 1971, the proposed closing date for the Series C Debentures, applicant estimates that it would owe Pacific Lighting Corporation in excess of the sum of \$35,000,000. Said debentures are to be issued for, and the net proceeds other than accrued interest are to be applied to, the payment and discharge of short-term indebtedness of applicant to Pacific Lighting Corporation for moneys used or to be used for construction or acquisition of property and facilities.

The Series C Debentures would be secured by an Indenture dated as of October 1, 1960, as heretofore supplemented and as further supplemented by a proposed Second Supplemental Indenture containing a five-year restricted redemption provision. Under sinking fund provisions 93-1/3% of the issue would be retired prior to maturity.

The reported capitalization ratios of applicant as of August 31, 1971, and as adjusted to give effect to the proposed debenture issue, are summarized as follows:

	<u>August 31, 1971</u>	<u>Pro Forma</u>
Debentures	42.8%	56.0%
Common stock equity	<u>57.2</u>	<u>44.0</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Applicant's Controller and Treasurer testified that the company foresees the requirement for additional equity funds, probably an issue of common stock in the magnitude of \$20,000,000 before the middle of 1972. This would contribute toward a desirable reduction in the debt ratio.

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.

By Decision No. 59943, dated April 19, 1960, in Application No. 41975, the Commission denied a similar request for exemption from the competitive bidding rule, wherein applicant herein had concluded that its first debenture issue could be sold under more favorable conditions through negotiated arrangements than under competitive bidding. Then, as now, applicant stressed the unique character of its operations.

Upon consideration of the application, testimony and exhibits, we find that:

1. Applicant's debentures are rated A by both Moody's Investors Service, Inc. and Standard & Poor's Corporation, which indicate upper medium grade.
2. Exhibit No. 1 sets forth an analysis of recent offerings of gas and electric bonds and debentures, only those rated "A" being comparable for this proceeding.
3. Page 3 of Exhibit No. 1 sets forth an analysis of 40 "A" rated bonds and debentures of which 16 were negotiated and 24 competitive offerings.
4. Page 3 of Exhibit No. 1 supports arguments for competitive as well as negotiated offerings, and is of no probative value.
5. A Vice President of Duff and Phelps, Inc. testified in support of a negotiated offering.
6. Duff and Phelps, Inc. serves numerous investors in addition to providing management consulting services to certain public utility systems.
7. Duff and Phelps, Inc. has not made a sufficiently detailed study pertaining to applicant herein in order to provide evidence of probative value.

8. Applicant sold its Series A and B Debentures through competitive bidding, having received four bids for each series. A summary pertaining to such debentures is as follows:

<u>Series</u>	<u>Offering Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Interest Cost to Company</u>	<u>Underwriting Spread</u>
A	10-19-60	\$25,000,000	5%	5.012%	.78%
B	7-18-68	30,000,000	7%	6.892%	.786%

9. Blyth & Co., Inc. headed the successful bidding groups for applicant's Series A and B Debentures.
10. If the Commission should grant the requested exemption from competitive bidding, applicant would enter into negotiations with Blyth & Co., Inc. with respect to the Series C Debentures.
11. Applicant stresses the cost of service tariff as important information to disseminate to prospective underwriters.
12. Informational media are available to applicant for conveying appropriate factual information to prospective underwriters.
13. The results of applicant's previous debt offerings show that the company's special situation does not necessitate negotiation.
14. Tight money market conditions, which were prevalent during 1969 and 1970, do not exist to as high a degree.
15. The proposed debenture issue is for proper purposes.
16. Applicant has need for external funds for the purposes set forth in this proceeding.
17. The proposed restricted redemption provision is reasonable.
18. The proposed Second Supplemental Indenture would not be adverse to the public interest.

19. The money, property or labor to be procured or paid for by the issue of the debentures 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.
20. The application of Article 5, Chapter 4, Part 1, Division 1 of the Public Utilities Code to this proceeding is required by the public interest.

On the basis of the foregoing findings we conclude that (a) applicant has failed to make a clear and convincing showing that a competitive bidding offering of its Series C Debentures would be adverse to itself and its customers, and (b) except to the extent that it seeks authority to sell the debentures 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 debentures through negotiation the application is denied.
2. Pacific Lighting Service Company may execute and deliver its Second Supplemental Indenture in substantially the same form as that filed in this proceeding as Exhibit F.

3. Pacific Lighting Service Company may invite the submission of written sealed bids for the purchase of not exceeding \$30,000,000 aggregate principal amount of its Sinking Fund Debentures, Series C, due 1991, the invitation to be published at least five days prior to the date set for the opening of the bids.

4. Pacific Lighting Service Company may issue and sell not exceeding \$30,000,000 aggregate principal amount of its Sinking Fund Debentures, Series C, due 1991, at competitive bidding to the purchaser, or purchasers, offering to it the most favorable terms as disclosed by the bids received.

5. Pacific Lighting Service Company shall apply the proceeds from the sale of said debentures to the purposes specified in this proceeding.

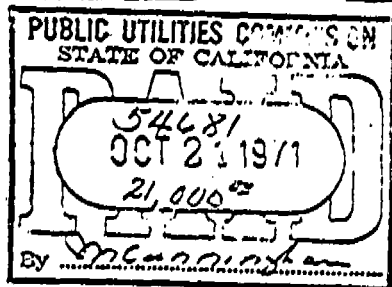
6. Promptly after awarding the contract for the sale of said debentures, Pacific Lighting Service Company shall file a written report with the Commission showing, as to each bid received, the name of the bidder, the price, the interest rate and the cost of money to applicant based upon such price and interest rate.

7. As soon as available, Pacific Lighting Service Company shall file with the Commission three copies of its prospectus pertaining to said debentures.

8. Within one month after issuing and selling the debentures herein authorized, Pacific Lighting Service 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 debenture proceeds were applied.

9. This order shall become effective when Pacific Lighting Service Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$21,000.

Dated at San Francisco, California,
this 19th day of OCTOBER, 1971.



[Signature] Chairman
William H. Brown, Jr.
[Signature]
Anna L. Steyer
[Signature] Commissioners