Decision 84 06 127 JUN 20 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA GAS COMPANY for Authorization to Obtain Additional Debt Capital Not to Exceed $60 million.	Application 84-05-033 (Filed May 8, 1984)

OPINION

Southern California Gas Company (SoCal) requests authority, under Public Utilities (PU) Code Sections 816 through 818, 830, and 851 for the following:

1. To issue and sell up to $60,000,000 aggregate principal amount of its First Mortgage Bonds, debentures, promissory notes, and/or other evidences of indebtedness (referred to collectively as Debt Securities), in one or more financings in domestic markets by means of competitive bidding or negotiated public offerings (both of which may be sold under a shelf registration statement) or in foreign markets by means of negotiated public offerings or negotiated private placements on or prior to December 31, 1984;

2. To mortgage or otherwise encumber SoCal's properties as security for its Debt Securities;

3. To guarantee debt securities issued and sold by SoCal's subsidiaries, or affiliates, in financings sold for SoCal in foreign markets;

4. To determine the precise amount and timing of each financing; the market in which each is sold; the method by which each is sold; and other terms and provisions as specified in the application for SoCal's Debt Securities;

5. To be exempted from the Commission's competitive bidding requirements those financings sold through negotiated public offerings or negotiated private placements;

6. To shorten to one day the period of time between the publication of an invitation for competitive bids and the opening of bids for SoCal's Debt Securities sold by means of competitive bidding in domestic markets; and

7. To further modify the Commission's competitive bidding requirements to permit SoCal to accelerate, postpone, or cancel its scheduled offering dates; to reject all bids submitted; request the resubmission of bids; reschedule subsequent openings of bids, and to vary the amount and terms of the Debt Securities submitted for bids without republishing an invitation for bids.

Summary of Decision

This decision grants SoCal the authority requested in the application to issue and sell its Debt Securities in either the domestic or foreign markets, by either competitive bidding, negotiated public offerings, or negotiated private placements. It also requires SoCal to file a report showing why the interest rate and cost of money resulting from negotiated public offerings and private placements in domestic markets and/or negotiated public offerings or negotiated private transactions in foreign markets were the most advantageous to the company and its ratepayers.

Notice of the filing of the application appeared on the Commission's Daily Calendar of May 14, 1984. No protests have been received.

SoCal, a California corporation (a subsidiary of Pacific Lighting Corporation), operates as a public utility under the jurisdiction of this Commission. SoCal purchases, distributes, and sells natural gas to customers throughout most of southern California and portions of central California.

For the 12 months ended March 31, 1984, SoCal reports in Exhibit D, attached to the application, that it generated total operating revenues of $4,401,807,073 and net income of $114,028,465.

Also shown as part of Exhibit B is SoCal's Balance Sheet as of March 31, 1984 summarized as follows:

Assets	Amount
Net Utility Plant	$1,429,768,000
Other Property and Investments-Net	18,140,000
Current and Accrued Assets	528,839,000
Deferred Debits	172,666,000
Total	$2,149,413,000
Liabilities and Equity	
Common Equity	$ 657,815,000
Preferred Stock	81,551,000
Long-Term Debt	694,043,000
Current and Accrued Liabilities	552,579,000
Deferred Credits	163,425,000
Total	$2,149,413,000

SoCal's capital ratios as of March 31, 1984 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	March 31, 1984	Pro Forma
Long-Term Debt	48.4%	47.8%
Short-Term Debt	.0	1.7
Total Debt	48.4%	49.5%
Preferred Stock	5.7	5.1
Common Equity	45.9	45.4
Total	100.0%	100.0%

1. The proposed issuance of up to $60,000,000 aggregate principal amount of Debt Securities;

2. A $30,000,000 capital contribution by Pacific Lighting Corporation, SoCal's parent, and $27,500,000 of retained earnings from March 31, 1984 to December 31, 1984;

3. An authorized but unissued refunding issue in the aggregate principal amount of $200,000,000 of Debt Securities with authority expiring November 2, 1985 intended to be used for the following purposes (if sold) (D.83-11-010 dated November 2, 1983 in A.83-09-20) as follows:

    a. The retirement of $70,000,000 aggregate principal amount of 15% First Mortgage Bonds, Series N, due in February of 2001 (D.92452 dated December 2, 1980 in A.60005);

    b. The retirement of $60,000,000 aggregate principal amount of 17-3/8% First Mortgage Bonds, Series O, due in September of 2001 (D.92452 dated December 2, 1980 in A.60005);

c. The retirement of $60,000,000 aggregate principal amount of 15-3/4% First Mortgage Bonds, Series P, due in April of 1992 (D.82-03-025 dated March 2, 1982 in A.61165); and

d. The capital contributions or retained earnings to increase equity capital in an amount equal to the increase in long-term debt arising from the premiums required for this repurchase of some or all of one or more series of SoCal's outstanding First Mortgage Bonds.

SoCal's construction budget for calendar years 1984 and 1985 amounts to about $617,610,000 of which approximately $83,525,000 has been spent as of April 30, 1984. Major classifications of the total budgeted construction are summarized as follows:

Description	1984	1985
Mains, Meters, and Services to Supply New Customers	$ 77,841,000	$ 80,150,000
Gas Distribution	145,669,000	153,616,000
Gas Transmission	18,661,000	20,730,000
Underground Storage	9,434,000	5,360,000
Land, Construction, and Alterations of Structure	35,769,000	39,330,000
Furniture, Equipment, Tools, etc.	10,416,000	20,623,000
Removal and Other Costs	11,000	0
Total	$297,801,000	$319,809,000

SoCal reports it had unreimbursed construction as of December 31, 1984 of about $228,047,399.

SoCal proposes to obtain up to $60,000,000 aggregate principal amount of debt capital, through one or more financings, in domestic or foreign capital markets at any time, or times, on or prior to December 31, 1984 for the purposes set forth in the application.

The precise amount and timing of each financing, the market in which each is sold, the method by which each is sold, the terms, provisions, the price, and interest rate on the Debt Securities issued in each financing, would be determined by SoCal within the constraints set forth below, with due regard for its financial requirements and the prevailing and anticipated market conditions at the time of sale. SoCal believes the flexibility provided, by the authorizations requested from this Commission, would enable it to respond rapidly to changing market conditions and to obtain long-term financing in an amount sufficient to meet SoCal's requirements for 1984 upon the most favorable terms.

Domestic Financings

SoCal's proposed debt financings in domestic capital markets would be sold through the issuance of its Debt Securities to the public through competitive bidding or negotiated public offerings (both of which may be sold under a "shelf" registration statement) or through negotiated private placements. The Debt Securities would be sold at any time, or from time to time, on or prior to December 31, 1984. These financings in domestic capital markets, together with debt financings in foreign capital markets, would provide SoCal with debt capital up to $60,000,000 aggregate principal amount.

The Debt Securities issued in each domestic financing would be direct obligations of SoCal issued as one or more additional series of SoCal's Debt Securities. Each financing would be sold through the use of indentures, bidding and offering documents, purchase, loan and underwriting agreements, and other documents and instruments customary for domestic debt financing by the method selected by SoCal.

The terms and provisions of the Debt Securities issued in each financing effected through competitive bidding would be established by SoCal prior to the public offering. The price of the securities and interest rate thereon would be that specified by the qualified bid for the Debt Securities which provides SoCal with the lowest cost of money.

The terms and provisions of the Debt Securities issued in each financing sold through negotiated public offering, the price, and interest rate would be determined prior to the offering by negotiations between SoCal and underwriters selected for the offering.

The terms and provisions of the Debt Securities issued in each financing sold through negotiated private placements, the price, and interest rate would be determined by negotiations between SoCal and lenders, or investors, to which the securities are to be issued.

Foreign Financings

SoCal's proposed debt financings in foreign capital markets would be sold directly through the issuance of its Debt Securities or indirectly through the issuance of debt securities of a subsidiary or an affiliate. The securities would be issued through negotiated public offerings, or to institutions, other lenders, or investors through negotiated private transactions. The financings would be sold at any time, or from time to time, on or prior to December 31, 1984 and, together with debt financings in domestic capital markets, would provide SoCal with up to $60,000,000 aggregate principal amount of additional debt capital.

The Debt Securities issued in each financing in foreign capital markets may be direct obligations of SoCal issued as one or more additional series of SoCal's Debt Securities. However, in order to assure, among other things, that United States taxes will not be withheld from payments on Debt Securities held by foreign lenders, or investors, SoCal's financings in foreign capital markets may also be sold indirectly through subsidiaries or affiliates incorporated in a jurisdiction with which the United States has favorable tax treaties. The foreign subsidiary or affiliate would issue debentures, notes, or other evidences of its indebtedness. These securities may be guaranteed by SoCal, and the net proceeds of the issue would be loaned to SoCal in return for SoCal's issuance to the subsidiary, or affiliate, one or more additional series of SoCal's Debt Securities. The securities so issued by SoCal may also be pledged as security for the debt securities issued by the subsidiary or affiliate.

Each of the subsidiaries, or affiliates, would be capitalized with an equity contribution by SoCal in an amount sufficient to obtain assurances that withholding of United States taxes would not be required in respect of the debt securities that are issued. The equity capitalization may be invested by the subsidiary, or affiliate, in interest bearing bank deposits, or investments, or loaned to SoCal, its other affiliates, or subsidiaries.

Each financing would be effected through the use of indentures, offering documents, purchase, loan and underwriting agreements, and other documents and instruments customary for foreign debt financings by the method selected by SoCal. The terms and provisions of the Debt Securities issued in each financing, the price, and interest rate would be determined by negotiations among SoCal, SoCal's subsidiary, or affiliate (if any), and the underwriters selected for the proposed offering, or the lenders, or investors to which the securities are to be issued.

Competitive Bidding Requirements

Rules adopted by this Commission in D.38614 dated January 15, 1946 in Case 4761, as amended by D.49941, D.75556, and D.81908, generally require California Public Utilities to obtain competitive bids for the purchase of their debt securities. The rules authorize this Commission to grant exemptions from the competitive bidding requirements. The Commission has done so, from time to time, upon a showing of compelling circumstances.

SoCal believes that compelling circumstances exist and requests exemption from this Commission's competitive bidding requirements for its proposed financings. SoCal believes that the financial flexibility that would be afforded by this exemption would enable it to meet its debt financing requirements on the most favorable terms available.

Domestic Financings

Competitive bidding markets for public utility securities are well established in the United States. SoCal states, however, that from time to time, financing sold through negotiated public offerings, or negotiated private transactions, may provide public utilities with more favorable terms and provisions, at a lower cost for their debt securities, than financing sold through competitive bidding. SoCal believes these conditions may exist, from time to time, during the period of the financings contemplated by the application. SoCal believes compelling reasons exist for permitting it to finance through negotiated public offerings and negotiated private transactions.

SoCal points out that financings sold through competitive bidding, requires that a fixed date and fixed terms for a public offering be established prior to the time of the offering. Variations in the date and terms so established are difficult and flexibility to respond to rapidly changing market conditions is lost. In contrast, a public offering through negotiated underwriting can be more readily accelerated in order to take advantage of favorable market conditions, or postponed, to avoid adverse market conditions. Changes in the terms and provisions, as well as the price and interest rate of the offering, may also be made more rapidly.

SoCal alleges that financing through negotiated private placements may provide more flexibility to vary the timing and terms and provisions of a financing than does financing through competitive bidding or negotiated public offerings. This results from the absence of registration proceedings necessary for a public offering and, in many cases, the absence of rating agency proceedings. Moreover, because of the ability to establish terms and provisions for the financing, as well as a variable interest rate, that are tailored to the specific requirements of a few investors, or lenders, as opposed to those of the public, SoCal that it may be possible to obtain more favorable terms and provisions at a lower cost than could be obtained in a public offering either through competitive bidding or negotiated public offering.

In competitive bidding, the investment banking community forms into several groups to bid for an offering. As a result, potential sellers of the offering are fragmented and many of those best able to distribute the offering may be members of an unsuccessful bidding group. In contrast, in a negotiated public offering, the managing underwriter has the entire investment banking community from which to choose in forming an underwriting group and selling syndicate. It is thus able to assemble the best group for the distribution of the offering and allocate the sales effort to those firms best able to market the offering.

Additionally, financing by means of negotiated public offering may help insure a successful offering through the preselling efforts of the underwriters. In a negotiated underwritten public offering, after the registration statement for the offering has been filed, the underwriters solicit indications of interest from institutions and other potential investors. These preselling efforts are likely to be much less extensive in competitive bidding because of uncertainty of prospective bidders as to whether their bid will be successful.

CORRECTION

CORRECTION

THIS DOCUMENT

HAS BEEN REPHOTOGRAPHED

TO ASSURE LEGIBILITY

believes that it may be possible to obtain more favorable terms and provisions at a lower cost than could be obtained in a public offering either through competitive bidding or negotiated public offering.

In competitive bidding, the investment banking community forms into several groups to bid for an offering. As a result, potential sellers of the offering are fragmented and many of those best able to distribute the offering may be members of an unsuccessful bidding group. In contrast, in a negotiated public offering, the managing underwriter has the entire investment banking community from which to choose in forming an underwriting group and selling syndicate. It is thus able to assemble the best group for the distribution of the offering and allocate the sales effort to those firms best able to market the offering.

Additionally, financing by means of negotiated public offering may help insure a successful offering through the pre-selling efforts of the underwriters. In a negotiated underwritten public offering, after the registration statement for the offering has been filed, the underwriters solicit indications of interest from institutions and other potential investors. These preselling efforts are likely to be much less extensive in competitive bidding because of uncertainty of prospective bidders as to whether their bid will be successful.

Foreign Financings

SoCal points out that competitive bidding markets do not exist for financing by domestic corporations in foreign capital markets. The established procedures for these financings require negotiated public offerings or negotiated private placements. Accordingly, in the absence of an exemption from this Commission's competitive bidding requirements, SoCal would be precluded from financing in foreign capital markets.

We are persuaded that an inflexible adherence to the requirements of the competitive bidding rule may not be in the public interest, given SoCal's need for large amounts of capital and the state of the economy at the present time. There is rising concern in the nation over the negative impact of the competition that exists for the acquisition of funds between the Federal government and the private sector. The government's need to finance extraordinary budget deficits, while the private sector borrowing demands are expanding, has put upward pressure on interest rates. Also the widespread pessimism, over the ability of Congress to reduce the Federal budget deficit, will continue to exert upward pressure on interest rates.

We are frankly uncertain whether strict adherence to the competitive bidding rule would prove beneficial at this time. Consequently, for this application only, we will authorize SoCal to proceed on either competitive bidding, negotiated public offerings, or negotiated private placements, according to SoCal's estimation of where the most favorable opportunity lies.

If SoCal issues and sells its Debt Securities by means of negotiated public offerings or negotiated private placements in the domestic or foreign markets, we will require SoCal to provide us with a showing of why it believes that the resulting interest rate and cost of money were the most advantageous to SoCal and its ratepayers. We will require this showing within a reasonable period after the issuance and sale of the proposed Debt Securities.

In order to provide additional flexibility for financing in domestic capital markets through competitive bidding, SoCal has also requested that this Commission modify its competitive bidding rule to shorten, to not less than one day, the period between the publication of an invitation for bids and the scheduled date for the opening of bids. SoCal requests that this Commission authorize it to accelerate, postpone, or cancel the date for the opening of bids; to reject all bids submitted; request the resubmission of bids; reschedule subsequent opening of bids; and to vary the amount and the terms and provisions of the securities submitted for bids, all without republishing an invitation for bids.

Use of Proceeds

SoCal proposes to apply the net proceeds from the sale of the proposed financings for the following purposes shown as Exhibit E to the application:

	Purpose	Amount
1.	Retirement of bonds through operation of the sinking fund provision,	$13,191,000
2.	Retirement of Southern Counties Gas Company 3-1/4% First Mortgage Bond, due May 1, 1984 (D.49932 dated April 20, 1954 in A.35314), and	4,500,000
3.	Reimbursement of the Treasury for a portion of the funds expended for construction.	42,309,000
	Total	$60,000,000

The Commission's Revenue Requirements Division has reviewed SoCal's construction budget for 1984 and 1985 and finds that the sale of the Debt Securities is necessary to fund the planned construction expenditures. We are not finding that the construction is necessary and reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

The Commission's Revenue Requirements Division has analyzed SoCal's cash requirements forecast for 1984 and 1985 attached to the application as Schedule II dated May 4, 1984. The

Division has concluded that internally generated funds will provide about 57% of the capital requirements for 1984 and 49% for 1985. The Division concludes that the sale of the proposed Debt Securities is necessary to help meet forecasted cash requirements.

Findings of Fact

1. SoCal, a California corporation, operates as a public utility under the jurisdiction of this Commission.

2. SoCal has need for external funds for the purposes set forth in the application.

3. SoCal's proposed Debt Securities are for proper purposes.

4. From time to time during the period of the financings contemplated by the application, more favorable financing may be available to SoCal in foreign capital markets than could be obtained in domestic markets.

5. From time to time during the period of the financings contemplated by SoCal in its application, more favorable domestic financing may be available to SoCal through negotiated public offerings or negotiated private placements than could be obtained through competitive bidding.

6. It is the public interest to authorize SoCal to determine the precise amount and timing of each financing, the market in which each is sold, the method by which each is sold, the principal amounts and maturities, and (if any), the redemption (including sinking fund provisions and period of nonrefundability), security,

subordination and conversion provisions, and the other terms and provisions of the debt securities or other evidences of indebtedness issued and sold by its subsidiaries, or affiliates, the price and the interest rate, all within the constraints set forth in the application.

7. Exempting SoCal's debt financings in foreign capital markets and its financings sold by means of negotiated public offerings and negotiated private placements in domestic capital markets from this Commission's competitive bidding requirements is in the public interest.

8. Shortening to one day the period of time between the publication of a public invitation for bids and the opening of bids for SoCal's debt financings sold by means of competitive bidding in domestic capital markets is in the public interest.

9. Authorizing SoCal to accelerate, postpone, or cancel the scheduled date of the opening of bids; to reject all bids submitted; to request the resubmission of bids; to reschedule subsequent openings of bids, and to vary the amount and terms of the securities submitted for bid, all without republishing an invitation for bids is in the public interest.

10. Authorizing SoCal to mortgage or otherwise encumber its properties as security for its Debt Securities is not adverse to the public interest.

11. The money, property, or labor to be procured, or paid for, by the Debt Securities is reasonably required for the purposes specified in the application.

12. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

The proposed security issue or issues are for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the security issue, or issues, may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable SoCal to issue its Debt Securities expeditiously.

O R D E R

1. Southern California Gas Company (SoCal) may issue and sell one or more series of its First Mortgage Bonds, debentures, notes, or other evidences of indebtedness (Debt Securities) in an aggregate principal amount up to $60,000,000, at any time or from time to time, on or prior to December 31, 1984, in one or more financings, in domestic capital markets effected through public offerings by means of competitive bidding or negotiated

underwritings (both of which may be effected by sales under a shelf registration statement) or through negotiated private transactions, or in foreign capital markets by means of negotiated underwritten public offerings or negotiated private transactions.

2. SoCal may mortgage or otherwise encumber its properties as security for its Debt Securities.

3. SoCal may guarantee debt securities issued by subsidiaries or affiliates of SoCal, in the financings sold for SoCal in foreign capital markets.

4. SoCal is authorized to determine the precise amount and timing of each financing; the market in which each is sold; the method by which each is sold; the terms and provisions, price, and interest rate of the debt securities, in the manner and subject to the limitations set forth in the application.

5. SoCal's financings through negotiated public offerings and negotiated private placements are exempted from the Commission's competitive bidding requirements.

6. SoCal's financings through competitive bidding may be sold through the publication of an invitation for bids not less than one day prior to the scheduled opening of bids.

7. SoCal may accelerate, postpone, cancel the scheduled date of invitation for bids, reject all bids submitted, request the resubmission of bids, reschedule subsequent openings of bids, and

vary the amount and terms of the Debt Securities submitted for bids, all without republishing an invitation for bids.

8. Within 30 days after awarding the contract for the sale of the Debt Securities by competitive bidding, or "shelf" sales after bidding, SoCal shall file a written report with the Commission showing, for each bid received, the name of the bidder, the price, the interest rate, and the cost of money to SoCal based on the price and interest rate.

9. If the Debt Securities are sold by means of competitive bidding or by negotiated public offerings, as soon as available, SoCal shall file, with the Commission, three copies of its final prospectus pertaining to the Debt Securities.

10. Within 30 days after the issuance and sale of any series of Debt Securities by means of negotiated public offerings or negotiated private placements, in either the domestic or foreign market, SoCal shall file, with the Commission, a report showing why the resulting rate and cost of money to the company were the most advantageous to SoCal and its ratepayers.

11. SoCal shall file the reports required by General Order Series 24.

12. SoCal shall use the net proceeds from the sale of its Debt Securities for the purposes set forth in the application.

13. The authority granted by this order to issue Debt Securities, or other evidences of indebtedness, will become effective when SoCal pays $27,154.50, the fee set by PU Code Section 1904(b) after taking credit for the retirement of $4,500,000 of 3-1/4% First Mortgage Bonds due May 1, 1984 and $13,191,000 for the retirement of bonds through sinking fund provisions. In all other respects, this order is effective today.

14. The application is granted as set forth above.

Dated JUN 20 1984 at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
13659
JUN 25 1984
$27,154.50
By

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz, Executive Director

11. The money, property, or labor to be procured, or paid for, by the Debt Securities is reasonably required for the purposes specified in the application.

12. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

The proposed security issue or issues are for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the security issue, or issues, may not be charged to operating expenses or income.

The following order will be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable SoCal to issue its Debt Securities expeditiously.

O R D E R

1. Southern California Gas Company (SoCal) may issue and sell one or more series of its First Mortgage Bonds, debentures, notes, or other evidences of indebtedness (Debt Securities) in an aggregate principal amount up to $60,000,000, at any time or from time to time, on or prior to December 31, 1984, in one or more financings, in domestic capital markets effected through public offerings by means of competitive bidding or negotiated

13. The authority granted by this order to issue Debt Securities, or other evidences of indebtedness, will become effective when SoCal pays $27,154.50, the fee set by PU Code Section 1904(b) after taking credit for the retirement of $4,500,000 of 3-1/4% First Mortgage Bonds due May 1, 1984 and $13,191,000 for the retirement of bonds through sinking fund provisions. In all other respects, this order is effective today.

14. The application is granted as set forth above.

Dated JUN 20 1984 at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners