

ORIGINAL

Decision 84 11 006 NOV 7 1984

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company, for Authorization to Issue, Sell and Deliver one or more series of its First Mortgage Bonds, Debentures, Notes and/or other Evidences of Indebtedness in an Aggregate Principal Amount Not to Exceed \$50,000,000 or, in the alternative, Guarantee Obligations of Another in respect of the Issuance of Securities, pursuant to an Agreement to be Executed and and Delivered in connection therewith; Execute and Deliver one or more Supplemental Indentures; Sell Utility Plant; and for an Exemption from the Competitive Bidding Requirements of the California Public Utilities Commission.

Application 84-09-046
(Filed September 19, 1984)

O P I N I O N

San Diego Gas & Electric Company (SDG&E) requests authority, under Public Utilities (PU) Code Sections 816 through 830 and 851, for the following:

1. To issue, sell, and deliver to the California Pollution Control Financing Authority (Authority) one or more series of SDG&E's First Mortgage Bonds, debentures, notes, and/or other evidences of indebtedness (collectively referred to as Debt Securities) in an aggregate principal amount up to \$50,000,000 for tax-exempt pollution control financing or,

in the alternative, to unconditionally guarantee, or otherwise secure, the Authority's obligations in respect to its issuances of debt under the terms of an agreement to be executed by SDG&E and the Authority.

2. To sell to the Authority certain pollution control facilities (Facilities) located at the San Onofre Nuclear Generating Station;
3. To execute and deliver one or more supplemental indentures; and
4. To have each proposed series of SDG&E's tax-exempt pollution control Debt Securities exempted from the Commission's competitive bidding requirements.

Summary of Decision

This decision grants SDG&E the authority requested in its application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of September 24, 1984. No protests have been received.

SDG&E, a California corporation, operates as a public utility subject to the jurisdiction of this Commission. SDG&E provides electric, gas, and steam service in portions of San Diego County and electric service in portions of Orange County.

In its Statement of Income and Retained Earnings for the six months ended June 30, 1984, SDG&E reports it generated total operating revenues of \$763,691,659 and net income of \$90,877,319 as shown in the application as part of Exhibit A.

Also shown as part of Exhibit A is SDG&E's Balance Sheet as of June 30, 1984 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 2,351,055,056
Other Plant and Property Investments	54,868,893
Current and Accrued Assets	374,155,541
Deferred Debits	<u>96,730,706</u>
Total	\$ 2,876,810,196
<u>Liabilities and Equity</u>	
Common Equity	\$ 1,001,003,627
Preferred/Preference Stock	224,566,700
Long-Term Debt	1,080,053,097
Current and Accrued Liabilities	299,504,759
Deferred Credits and Reserves	<u>271,682,013</u>
Total	\$ 2,876,810,196

As of June 30, 1984, SDG&E had outstanding short-term obligations totaling \$17,563,155. This total consisted of \$14,496,455 covering the current portion of long-term debt payable within 12 months and \$3,066,700 in sinking fund requirements for preferred stock.

In this application, SDG&E proposes to engage in a California pollution control facility financing with the Authority, a political subdivision of the State of California, in order to obtain the benefits of tax-exempt financing for certain pollution control and solid waste disposal Facilities located at SDG&E's San Onofre Nuclear Generating Station, Units 2 and 3, described in

detail in Exhibit D of the application. SDG&E currently contemplates that the proposed financing would be structured as described below.

The Authority would issue and sell one or more series of its bonds, notes, debentures, or other securities (collectively referred to as Pollution Control Bonds) in an aggregate principal amount up to \$50,000,000 to one or more underwriters or by private placement. If the Pollution Control Bonds are sold to one or more underwriters, it is expected that the underwriters would ultimately market the Pollution Control Bonds to the general public.

Concurrently with the sale and delivery of the Pollution Control Bonds, SDG&E would enter into a loan agreement, an installment sale agreement, financing agreement, or other security agreement with the Authority. SDG&E has stated in the application that these documents will be furnished to the Commission when executed. If a loan agreement is entered into, the Authority would lend and SDG&E would borrow an aggregate amount up to \$50,000,000. If an installment sale agreement is entered into, SDG&E would sell to the Authority a portion of the pollution control Facilities located at its San Onofre Nuclear Generating Station, at a price equal to SDG&E's estimated cost of acquisition, or construction, for the Facilities.

The Authority would reconvey title to the Facilities to SDG&E in consideration of SDG&E's obligation to pay the amounts as may be required to pay the principal, premium (if any), and interest on the Pollution Control Bonds and all expenses attendant thereto. SDG&E's obligations under a loan agreement or an installment sale agreement would be secured by SDG&E's Debt Securities as described below. The Authority would obtain the money to make the loan or buy the completed Facilities and would construct, or acquire, the remaining Facilities from the proceeds of the sale of the Pollution Control Bonds.

SDG&E states that substantially all of the proceeds from the issuance of the Pollution Control Bonds will be used to acquire, or construct, Facilities within the meaning of the Internal Revenue Code. It is expected that the interest payable on the Pollution Control Bonds will be exempt from all present federal and California state income taxes under existing statutes, regulations, court decisions, and rulings.

Since the interest payable on the Pollution Control Bonds is anticipated to be exempt from present federal and California state income taxes, the Pollution Control Bonds will be sold at an annual interest rate substantially less than would be realized if SDG&E were to issue and sell its own taxable debt obligations. While the actual savings would be highly dependent on market conditions and maturities, SDG&E has stated it believes that the

tax-exempt Pollution Control Bonds could be sold at a rate of approximately 200 to 400 basis points below the rate for a comparable issue of SDG&E's own taxable debt issues.

Concurrently with the sale and delivery of the Pollution Control Bonds, SDG&E would issue and deliver to the Authority, in consideration of the Authority's obligations set forth above, SDG&E's Debt Securities in an aggregate principal amount up to \$50,000,000, (the terms and conditions of this indebtedness to be consistent with the terms and conditions of the Pollution Control Bonds) or would unconditionally guarantee, or otherwise secure (by letters of credit, insurance policies, or other security arrangements) the Authority's obligations in respect of the Pollution Control Bonds. All rights, title, and interest of the Authority in SDG&E's Debt Securities would be assigned to a trustee pursuant to an indenture under which the Pollution Control Bonds would have been issued, as security for the purchasers of the Pollution Control Bonds.

Use of Floating Rate Pollution Control Bonds

Although the Pollution Control Bonds may be issued in the form of long-term fixed rate securities; depending upon the existing market conditions, SDG&E states that it may be advantageous for one or more series of the Pollution Control Bonds to be issued in the form of floating rate short-term demand bonds, or notes, or some other variable interest rate debt instrument. SDG&E

anticipates that such a variable rate financing, with such changes as market conditions might dictate, would be structured substantially as follows:

1. The Pollution Control Bonds would be nominally long-term instruments but would carry a short-term interest rate because of the existence of a periodic "put" option;
2. The holders of the Pollution Control Bonds would have the right to require that the Pollution Control Bonds be redeemed on certain periodic dates, generally at 100% of the principal amount plus accrued interest;
3. A Remarketing Agent would then remarket those Pollution Control Bonds which had been redeemed; and
4. Because the interest rate on the Pollution Control Bonds would be periodically reset based on a short-term tax-exempt index, any redeemed Pollution Control Bonds could generally be remarketed at their full principal amount.

Use of Floating Interest Rate

SDG&E states that the floating rate Pollution Control Bonds might be backed by a letter of credit, if it provides more favorable terms. To secure the letter of credit, SDG&E would enter into a reimbursement agreement. SDG&E would have the option at a certain time, or times, to change from a floating rate to a fixed rate. This financing method was recently authorized by the Commission for SDG&E in Decision (D.) 84-01-043 dated January 19, 1984 in Application (A.) 83-11-45 and would again be beneficial to

SDG&E and its ratepayers by providing the potential of long-term financing at short-term rates, while also providing an option to lock in a particular rate, if interest rates start to rise.

Savings to Benefit Ratepayers

Since the interest payable on the Pollution Control Bonds is anticipated to be exempt from present federal and state income taxes, the Pollution Control Bonds will be sold at an annual interest rate substantially less than would be realized if SDG&E were to issue and sell its own taxable debt obligations. In order for SDG&E to take advantage of the favorable interest rates applicable to the Pollution Control Bonds, SDG&E must issue its Debt Securities to the Authority. The interest rates payable by SDG&E will be the same as those required by the Authority's tax-exempt bonds. The lower interest rates on SDG&E's Debt Securities will result in a lower embedded cost of debt than if SDG&E were to issue taxable debt to finance the Facilities. This lower embedded cost of debt will be reflected in a lower overall cost of capital and a reduced revenue requirement which will be passed on to SDG&E's ratepayers in future rate proceedings.

Sale of Utility Plant

If an installment sale agreement is entered into, SDG&E would convey title to the Facilities, subject to the lien of its Trust Indenture, to the Authority. The transfer of title to the Facilities would be made for the purpose of complying with the

applicable provisions of California Health and Safety Code Sections. Title to the Facilities would be reconveyed to SDG&E as partial consideration for SDG&E's issuance and sale of its Debt Securities to the Authority. The operation and control of the Facilities conveyed to the Authority would remain with SDG&E, or its agent, at all times.

Initial Intermediate Debt

SDG&E asserts it anticipates that the Authority will issue long-term debt obligations to finance the Facilities. However, under certain market conditions, SDG&E believes that the Authority may be able to issue intermediate-term obligations at interest rates which, combined with subsequent bond issues, would be more favorable to the Authority, and therefore to SDG&E and its ratepayers, than interest rates available on an initial issuance of long-term debt. SDG&E has stated that if the Authority experiences such market conditions, SDG&E would like to utilize the authority requested in its application to issue its Debt Securities with terms consistent with the Authority's initial intermediate-term debt and subsequently apply for Commission authorization to issue refunding debt at, or prior to, the maturity of the intermediate-term debt. We concur with and approved of SDG&E's plans regarding the issuance of intermediate-term debt.

Description of SDG&E's Debt Security Issue(s)

SDG&E's Debt Securities may take the form of one or more series of its First Mortgage Bonds, debentures, notes, and/or other evidences of indebtedness. If this indebtedness is evidenced by SDG&E's First Mortgage Bonds, these Bonds would be issued under a Supplemental Indenture which would be substantially similar in form to the Supplemental Indentures previously issued by SDG&E, supplementing SDG&E's Mortgage and Deed of Trust to the Bank of California, N.A., as Trustee, dated July 1, 1940, as previously supplemented and amended by thirty-one Supplemental Indentures. This Supplemental Indenture would provide for terms and conditions necessary to secure SDG&E's obligations to the Authority.

SDG&E's Debt Securities would be substantially consistent with the terms of the Pollution Control Bonds with respect to principal amount, maturity, interest rate, payment dates, place and manner of payment, call protection, and other redemption or repurchase provisions including sinking fund (if any) deemed necessary and advisable by SDG&E. The principal amount of the Debt Securities shall not exceed in the aggregate principal amount of \$50,000,000 for all Supplemental Indentures issued hereunder, and would have other terms and conditions which are substantially consistent with the terms and conditions of the Pollution Control Bonds.

Request for Exemption from Competitive Bidding

SDG&E seeks an order from this Commission granting an exemption of the proposed issues and sales of its Debt Securities from the Commission's competitive bidding rule as established by D.38614 dated January 15, 1946 in Case 4761 as amended by D.49941 and D.75556. These decisions contemplate that under appropriate circumstances the Commission will not require competitive bidding. SDG&E states that in order for it to take advantage of the favorable interest rates applicable to the Pollution Control Bonds, it must issue and deliver its Debt Securities to the Authority or to the Authority's account, as security for, or as the means of payment of its obligations under its agreement with the Authority.

Thus, because of the statutory structure of the Authority's pollution control financing mechanisms, competitive bidding for SDG&E's Debt Securities is not possible. The Commission has previously recognized this unique method of financing by exempting pollution control related debt issues from the competitive bidding requirements. We believe an exemption from the competitive bidding requirements is also appropriate in this case.

Use of Pollution Control Bond Proceeds

SDG&E intends to use the net proceeds from the issuance and sale of the Pollution Control Bonds by the Authority for the acquisition of property and for the construction, completion, extension, or improvement of SDG&E's Facilities, and/or to reimburse SDG&E for moneys actually expended from its treasury for these purposes. The Facilities to be financed include a portion of SDG&E's San Onofre Nuclear Generating Station, Units 2 and 3, consisting of certain pollution-control and solid waste disposal Facilities as described in Exhibit D of the application.

Pollution Control Financing Authority Proceedings

On August 31, 1984, SDG&E filed an application with the Authority requesting initial approval of the pollution control financing described herein. On September 19, 1984, SDG&E's request for this approval was considered at a meeting of the Authority and was favorably acted upon. SDG&E is now seeking expeditious approval of its application in order to take advantage of the tax-exempt pollution control financing.

Capital Ratios

SDG&E's capital ratios reported as of June 30, 1984, are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	<u>June 30, 1984</u>	<u>Pro Forma</u>
Long-Term Debt	46.6%	46.2%
Short-Term Debt	<u>0.8</u>	<u>0</u>
Total Debt	47.4%	46.2%
Preferred/Preference		
Stock	9.5	9.0
Common Equity	<u>43.1</u>	<u>44.8</u>
Total	100.0%	100.0%

1. The proposed issuance of up to \$50,000,000 aggregate principal amount of SDG&E's Debt Securities as security for the issuance and sale of Pollution Control Revenue Bonds to be sold by the Authority;
2. The issuance and sale of up to 1,720,338 shares of SDG&E's Common Stock, \$5 par value, authorized but unissued under SDG&E's Tax Reduction Employee Stock Ownership Plan, as amended, estimated to produce net proceeds of \$32,686,422 at the assumed price of \$19 per share (D.82-09-014 dated September 8, 1982 in A.82-07-50 and D.84-07-073 dated July 5, 1984 in A.84-05-083);
3. The authorized but unissued Debt Securities in the aggregate principal amount of \$135,000,000 for the purpose of refunding one or more series of outstanding bonds (D.83-06-097 dated June 29, 1983 in A.83-05-47);

4. The issuance and sale of \$11,500,000 of Debt Securities as security for the issuance and sale of Pollution Control Revenue Bonds by the Authority (D.84-01-043 dated January 19, 1984 in A.83-11-45);
5. The issuance and sale of up to 2,758,373 shares of SDG&E's Common Stock, \$5 par value, authorized but unissued under SDG&E's Common Stock Investment Plan estimated to produce net proceeds of \$50,312,724 at the assumed price of \$19 per share (D.83-05-009 dated May 4, 1983 in A.83-03-37); and
6. The issuance and sale of up to 1,117,951, shares of SDG&E's Common Stock, \$5 par value, authorized but unissued under SDG&E's Employee Savings Plan estimated to produce net proceeds of \$21,241,069 at the assumed price of \$19 per share (D.92805 dated March 12, 1981 in A.60228);

SDG&E's construction budget for calendar years 1984 and 1985 amounts to approximately \$477,000,000 of which approximately \$92,000,000 had been spent as of June 30, 1984. Major classifications of the total budgeted construction (excluding allowances for funds used during construction) are summarized as follows:

<u>Description</u>	<u>1984</u>	<u>1985</u>
Electric Production	\$ 75,000,000	\$ 78,000,000
Electric Transmission	53,000,000	16,000,000
Electric Distribution	81,000,000	111,000,000
Gas Production, Transmission, and Distribution	23,000,000	31,000,000
Common Plant	<u>3,000,000</u>	<u>6,000,000</u>
Total	\$235,000,000	\$242,000,000

SDG&E reports it had unreimbursed construction as of June 30, 1984 totalling \$381,797,722.

The Commission's Evaluation and Compliance Division has reviewed SDG&E's construction budget for 1984 and 1985 and finds that the financing is necessary to fund the planned pollution control construction. 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 Evaluation and Compliance Division has analyzed the financial data provided by SDG&E and has concluded that the authorization requested in the application is proper and necessary to help SDG&E meet its projected capital requirements.

Findings of Fact

1. SDG&E, a California corporation, operates as a public utility under the jurisdiction of this Commission.
2. SDG&E needs external funds for the purposes set forth in the application.
3. SDG&E's participation in the proposed Pollution Control Bond financing, including the issuance of its own Debt Securities, guarantees, and other security enhancements in connection with the Pollution Control Bond financing, would be for proper purposes.

4. The Pollution Control Bond financing, including the issuance of SDG&E's Bonds, guarantees, and other security enhancements in connection with the Pollution Control Bond financing, would not be adverse to the public interest.

5. The money, property, or labor to be procured or paid for by the proposed Pollution Control Bond financing or issuance of SDG&E's Debt Securities are reasonably required for the purposes specified in the application.

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

The following order shall be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable SDG&E to proceed with the Pollution Control Bond financing expeditiously.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E), on or after the effective date of this order, may, for the purposes set forth in this proceeding, issue, sell, and deliver to the California Pollution Control Financing Authority (Authority) one or more series of its First Mortgage Bonds, debentures, notes, and/or other evidences of indebtedness (Debt Securities) in an aggregate principal amount up to \$50,000,000, with all of these issues and sales of the Debt Securities being at the price and upon the terms and conditions substantially consistent with those set forth or contemplated in the application or, in the alternative, unconditionally guarantee or otherwise secure the Authority's obligations, by means of letters of credit, insurance policies, or other security arrangements, in respect of the Authority's issuances of debt under the terms of one or more agreements to be executed by SDG&E and the Authority.

2. SDG&E may sell to the Authority certain pollution control Facilities located at SDG&E's San Onofre Nuclear Generating Station in accordance with the terms and conditions set forth in, or contemplated by, the application.

3. SDG&E may execute and deliver one or more Supplemental Indentures on terms and conditions contemplated in the application;

4. SDG&E's Debt Securities are exempted from the Commission's competitive bidding requirements as set forth in Decision 38614 dated January 15, 1946 as amended in Case 4761.

5. SDG&E shall apply the net proceeds from the issuance and sale of its Debt Securities for the purposes set forth in the application.

6. SDG&E shall file the reports required by General Order Series 24.

7. As soon as available, SDG&E shall file with the Commission three copies of the official statement pertaining to the pollution control financing.

8. This order shall become effective when SDG&E pays \$31,000, the fee set by PU Code Section 1904(b). In all other respects this order is effective today.

9. This application is granted as set forth above.

Dated NOV 7 1984 at San Francisco, California.

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

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

Joseph E. Bozovitz
Joseph E. Bozovitz, Executive Director

