CACD/KLH *

Decision 88 10 059 OCT 26 1988

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA GAS COMPANY for Authorization to (1) Obtain Debt Capital Not to Exceed the Equivalent of U.S. $325,000,000, (2) Enter into One or More Interest Rate Swap Agreements, (3) Obtain an Exemption from the Competitive Bidding Rule to Eliminate the One-Day Notification Requirement to Solicit Bids, and (4) Obtain Equity Capital Not to Exceed U.S. $50,000,000 by the Issuance and Sale of Shares of its Series Preferred Stock or Preference Stock and to Distribute Shares of its Common Stock to Pacific Enterprises. (U 904 G)	Application 88-09-003 (Filed September 1, 1988)

OPINION

Summary of Decision

This decision grants Southern California Gas Company (SoCalGas) the authority requested in the application.

SoCalGas requests authority, under Public Utilities (PU) Code Sections 816-830 and 851, for the following:

1. To issue, sell and deliver up to $325,000,000 aggregate principal amount of SoCalGas' First Mortgage Bonds, debentures, promissory notes or other evidences of indebtedness including without limitation overseas indebtedness, foreign securities and loans (to be collectively referred to as Debt Securities) at any time or from time to time, on or prior to the effective date of this order and on or prior to December 31, 1990, in one or more financings effected in domestic or foreign capital markets;

2. To issue the Debt Securities denominated in U.S. Dollars or other currencies and to reduce or eliminate exposure to currency fluctuations by engaging in currency exchanges or purchases and sales and other arrangements;

3. To mortgage or otherwise encumber its properties as security for the Debt Securities;

4. To determine the precise amount and timing of each financing, the market in and method by which each is effected, and the principal amounts, maturities and other terms and provisions of the Debt Securities as specified in the application;

5. To amortize the unamortized costs associated with refunded securities and the premiums (if any) paid in refunding of securities over the life of the new Debt Securities;

6. To enter into one or more interest rate swap agreements, unless the Commission concurs with SoCalGas' opinion that these agreements do not require Commission authorization;

7. To effect financings other than domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds, including without limitation, medium-term notes (as hereinafter defined), interest rate swap agreements and Debt Securities issued in connection with interest rate swap agreements without competitive bidding;

8. To permit SoCalGas to (a) telephonically invite the submission of bids and receive bids by telephone in lieu of newspaper publication of an invitation for bids and the submission and opening of sealed written bids; (b) accelerate the scheduled date and time for the receipt of bids and/or vary the terms and provisions of the securities submitted for bid; and (c) reject all bids and (d) telephonically request resubmission of bids for securities with the same terms and provisions;

9. To issue, sell and deliver Debt Securities under the Commission's Competitive Bidding Rule except for the elimination of the one-day notification requirement to solicit bids;

10. To obtain equity capital in an aggregate principal amount of up to $50,000,000 by the issuance and sale of one or more series of SoCalGas's Series Preferred Stock or Preference Stock at any time or from time to time, on or prior to the effective date of this order and on or prior to December 31, 1990, in one or more public offerings through negotiated underwritings including sales under a shelf registration statement or one or more private placements with institutional or other investors;

11. To determine the precise amount and timing of each offering and sale of SoCalGas' Series Preferred Stock or Preference Stock, the method of sale, the dividend rate (which may be fixed, adjustable, variable or set by auction), the liquidation preference, and other rights, preferences, privileges and restrictions to be granted to or upon these shares including redemption and sinking fund provisions (if any) and the price thereof;

12. To distribute, substantially concurrent with the issuance of SoCalGas' Series Preferred Stock or Preference Stock, shares of SoCalGas' common stock to Pacific Enterprises, as a stock dividend sufficient to maintain Pacific Enterprises' current percentage ownership of SoCalGas' voting capital stock; and

13. To use the net proceeds for the purposes set forth in the application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of September 9, 1988. No protests have been received.

SoCalGas, a California corporation (and a subsidiary of Pacific Enterprises), operates as a public utility under the jurisdiction of this Commission. SoCalGas purchases, distributes and sells natural gas to customers throughout most of Southern California and portions of Central California.

For the six months ended June 30, 1988, SoCalGas reports in its Statement of Consolidated Income attached to the application as Exhibit C that it generated total operating revenues of $1,601,362,000 and net income of $100,673,000 shown as part of Exhibit C attached to the application. For the 12 months ended June 30, 1988, SoCalGas reports that it generated total operating revenues of $3,161,834,000 and net income of $181,061,000.

Also shown as part of Exhibit C is SoCalGas' Consolidated Balance Sheet as of June 30, 1988 summarized as follows:

Assets	Amount
Net Utility Plant	$2,435,712,000
Other Property and Investments -Net	2,154,000
Current and Accrued Assets	594,179,000
Deferred Debits	(24,310,000)
Total	$3,007,735,000
Liabilities and Equity	
Common Equity	$1,219,975,000
Long-Term Debt	1,012,158,000
Current and Accrued Liabilities	348,662,000
Deferred Credits	423,439,000
Operating Reserves	3,501,000
Total	$3,007,735,000

( ) = Negative figure

Capital Ratios

SoCalGas' capital ratios as of June 30, 1988 are shown below as recorded and adjusted to give pro forma effect to the financings contemplated by the application:

Component		June 30, 1988	Pro Forma
Long-Term Debt		44.6%	43.5%
Short-Term Debt		0	4.2
	Total Debt	44.6	47.7
Preferred Stock		8.7	9.6
Common Equity		46.7	42.7
	Total	100.0%	100.0%

Debt Securities

1. The proposed issuance and sale of up to $325,000,000 aggregate principal amount of Debt Securities and $50,000,000 of Series Preferred Stock or Preferred Stock as requested in the application;

2. The retirement of $20,886,000 aggregate principal amount of outstanding 4-3/8% First Mortgage Bonds, Series E, which matured on July 1, 1988 (authorized by Decision (D.)65506 dated June 4, 1963 in Application (A.)45435);

3. The retirement of $20,800,000 aggregate principal amount of 4-5/8% First Mortgage Bonds, Series F maturing September 1, 1989 (authorized by D.67634 dated August 4, 1964 in A.46811);

4. The redemption of $90,000,000 aggregate principal amount of outstanding 12-1/4% First Mortgage Bonds, Series Q due August 15, 1993, in addition to $3,150,000 of redemption premium, during 1988 (authorized by D.83-06-093 dated June 29, 1983 in A.83-05-042);

5. The sinking fund call of $4,660,000 aggregate principal amount of outstanding 12-3/4% First Mortgage Bonds, Series M, during 1989 (authorized by D.90788 dated September 12, 1979 in A.59015);

6. The redemption of a $60,000,000 12-3/4% Euronote during 1989 in addition to $600,000 redemption premium (authorized by D.84-06-127 dated June 20, 1984 in A.84-05-033);

7. The repayment of a $9,000 mortgage loan during the remainder of 1988 and 1989;

8. The additional sinking fund requirements in the aggregate principal amount of $21,251,000; and

9. The estimated increase in retaining earnings of $44,375,000 during the remainder of 1988 and 1989.

Issuance and Sale of Debt Securities

SoCalGas proposes to issue and sell its Debt Securities up to $325,000,000 aggregate principal amount, through one or more financings in domestic or foreign capital markets at any time, or from time to time, for the purpose of reimbursing its treasury for monies expended, or to be expended, for expansion and betterment of utility plant and to refund debt securities retired, or to be retired, at maturity and through sinking fund payments or redemption, including premiums (if any), and to refund debt securities acquired, or to be acquired, through repurchase or some other method. Except with respect to the Debt Securities issued to refund those retired at maturity or through sinking fund payments, these Debt Securities will be issued in refunding operations only to the extent that they are, or are expected to be, less costly to SoCalGas than the costs including amortization of premiums and other costs associated with refunding or the other outstanding debt refunded.

The application indicates that the precise amount and timing of each financing, the market in and method by which it is effected and the terms and provisions, price of, and interest rate on the Debt Securities issued in each financing will be determined by SoCalGas within the constraints set forth in the application with due regard for its financial requirements and the prevailing and anticipated market conditions, including competing demands for funds, existing at the time of sale.

Debt Securities

The Debt Securities may be issued as one or more additional series of SoCalGas' First Mortgage Bonds or as debentures, promissory notes or other evidences of its indebtedness including without limitation overseas indebtedness, foreign securities and loans. Each financing will be effected through the use of indentures, bidding and offering documents, purchase agreements, loan agreements, underwriting agreements or other documents and instruments customary for the financing method selected by SoCalGas.

The following describes in greater detail the types of Debt Securities SoCalGas may issue:

A. First Mortgage Bonds

SoCalGas' First Mortgage Bonds would be issued in conformity with the provisions of, and secured by, SoCalGas' First Mortgage Indenture dated October 1, 1940 as amended and supplemented.

B. Debentures and Notes

The Debt Securities, if issued in the form of debentures or promissory notes, may be sold either domestically or in foreign capital markets, may be publicly offered or sold privately and may have fixed or floating rates of interest. These securities will be issued in accordance with an indenture, purchase agreement or other document that would set forth the aggregate principal amount, maturity, default and other material provisions of the securities.

C. Medium-Term Notes

Medium-Term Notes (Notes) are Notes offered on a continuous or periodic basis. Maturities generally range from nine months to 15 years, although they can extend up to 30 years. They are sold in public or private offerings, with fixed or floating rates, in senior or subordinated form. The Notes are generally sold on a best-efforts or agency basis (with the dealer managers not taking underwriting risk); and, accordingly, issuance costs are generally lower than for traditional underwitten offerings.

D. Foreign Capital Markets

Debt Securities issued in foreign capital markets may be denominated in or proceeds from their sale received in U.S. Dollars or in other currencies. To reduce or eliminate the risk of currency fluctuation, SoCalGas may engage in currency exchanges or purchases and sales and other arrangements. For example, SoCalGas may enter into one or more forward contracts by which a counterparty would be obligated to pay SoCalGas the foreign currency for debt servicing. In exchange, SoCalGas would pay a counterparty U.S. dollars based upon a predetermined formula. This type of contract would be with a major financial intermediary, such as a commercial bank, or directly with a principal. The cost of the forward contracts would be included in determining the overall cost of Debt Securities issued in foreign capital markets.

SoCalGas intends to confine its financings in foreign capital markets and its financings involving foreign currencies to those periods in which it is reasonably confident that the financings, including any related currency transactions, will provide more favorable terms and conditions than are then available to SoCalGas in domestic capital markets or through financings not involving foreign currencies. During other periods, SoCalGas will confine its financings to domestic capital markets or to those not involving foreign currencies.

The Commission Advisory and Compliance Division (CACD) recommends that SoCalGas be placed on notice that the Commission, in order to protect the ratepayers from currency value fluctuations, will review the reasonableness of the effective interest rate for any Debt Securities issue in a foreign-denominated currency at the time of issuance and if such an interest rate is determined to be reasonable, may, for ratemaking purpose, use that rate as the maximum embedded cost of money for such securities.

The CACD also recommends that the Commission indicate that the initial interest rate which is determined to be reasonable for such securities will only be the maximum cost of money it will allow in future rate proceedings and that any reductions in the effective cost of money, resulting from currency value fluctuations, be passed on to ratepayers in future rate proceedings as a reduction in the cost of money for all debt securities in SoCalGas' capital structure.

E. Loans

SoCalGas indicates that, from time to time, it may be advantageous to borrow directly from banks, insurance companies or other financial institutions. SoCalGas intends to confine its borrowings of this nature to situations designed to result in a lower overall cost of money than that available through the issuance of other Debt Securities.

Use of Proceeds from the Sale of Debt Securities

SoCalGas proposes to apply the net proceeds from its proposed Debt Securities financings to reimburse its treasury for monies expended, or to be expended, for expansion and betterment of utility plant and to refund its debt securities retired, or to be retired, at maturity and through sinking fund payments or redemption including premiums (if any) required in connection therewith and to refund debt securities acquired or to be acquired through repurchases or through some other method including, without limitation, the debt securities set forth on Exhibit E of the application. Except with respect to the Debt Securities issued to refund debt securities retired at maturity or through sinking fund payments, the new Debt Securities will be issued in refunding operations only to the extent that they are, or are expected to be, less costly to SoCalGas than the costs, including amortization of premiums and other costs associated with refunding of the debt securities refunded. SoCalGas intends to account for any premiums and unamortized costs of the refunded securities by amortizing such amounts over the life of the debt securities issued in the refunding operations.

The CACD has reviewed SoCalGas's application and its proposed sale of Debt Securities for the purpose of refunding outstanding indebtedness. The CACD has concluded that SoCalGas' proposed financings are necessary to provide funds for the purposes set forth in the application. Furthermore, the CACD has no objection to the proposed financings.

Bond premiums along with any unamortized discounts and expenses are and have been deductible on the utilty's Federal and California Corporate Franchise Tax returns in the years in which the bonds are retired. This produces a tax benefit to the utility in those years. Because of the technical nature of this issue and the numerous methodologies currently used by the utilities, the Division of Ratepayers Advocates is recommending that this issue be addressed in a workshop to determine the proper ratemaking treatment for flowing these tax benefits through to ratepayers.

The workshop and a consistent methodology which would be used by all utilities is currently being recommended in the following proceedings:

UTILITY

A.87-12-003	San Diego Gas & Electric Company	Test year 1989
A.88-07-023	Southern California Edison Company	Attrition Year 1989
A.88-07-037	Pacific Gas and Electric Company	Attrition Year 1989
A.88-07-052	Sierra Pacific Power Company	Attrition Year 1989
A.88-08-001	Southern California Gas Company	Attrition Year 1989
A.88-07-017	GTE California	Attrition Year 1989
A.88-07-019	Pacific Bell	Attrition Year 1989

The tax benefit relating to the deductiblity of the call premiums, and unamortized discounts and expenses should be passed on to ratepayers in the manner decided upon in these workshops. Until this issue is resolved, a memorandum account should be established to track the amounts currently recovered in rates by SoCalGas related to these retirements. The memorandum account would then be adjusted to reflect the consistent methodology determined in the workshop and subsequently adopted by a Commission Order.

Interest Rate Swaps

SoCalGas seeks, in the alternative, either (1) that the Commission concur with SoCalGas' opinion that entering into one or more interest rate swap agreements, from time to time, does not require Commission authorization under PU Code Sections 816 through

830 or (2) that the Commission grant SoCalGas authority to enter into such agreements.

1. Description of Interest Rate Swaps

An interest rate swap is an agreement between two parties to exchange interest payments that are based on specific interest rates and a stated principal amount. Typically, one party pays fixed and receives floating interest rate payments and the other party receives fixed and pays floating interest rate payments, with the exchange taking place over a specified period of time.

Interest rate swaps were created to take advantage of arbitrage 1/ opportunities in the various fixed and floating rate capital markets. Arbitrage opportunities exist because some markets react to change more rapidly than others, because credit perceptions differ from market to market, and because receptivity to specific debt structures differs from market to market.

2. Background of Interest Rate Swaps

Since its origination in the Eurobond market in 1981, the interest rate swap market has expanded rapidly world-wide. The result of this dramatic expansion is a swap market possessing substantial depth and liquidity. SoCalGas indicates that swaps now range in size from about $500,000 to $500,000,000,

1/ The simultaneous buying and selling of the same stocks, bonds, etc., in different markets, to profit from unequal prices.

run from six months to 15 years, and contain floating rate indices of LIBOR (London Interbank Offering Rate), treasury bills, commercial paper and the prime rate. Through the development of a liquid secondary market, almost all swaps can now be assigned or terminated.

3. Interest Rate Swaps May be Financially Advantageous to SoCalGas

SoCalGas believes that interest rate swaps provide it with another tool to manage its debt securities and may reduce the all-in cost of floating and fixed-rate Debt Securities. For example, SoCalGas may swap a higher fixed interest rate for a lower floating interest rate to reduce its overall interest costs for the period of the swap. SoCalGas believes that its shareholders should bear all risks associated with interest rate swaps and should receive any resulting benefits as well. Ratepayers should not be impacted by any interest rate swaps. The CACD recommends that only those securities with a coupon rate greater than 9.0% should be used for a swap. This would round to 40% of SoCalGas' total long-term debt at June 30, 1988.

4. Value Limits, Reporting Requirements and Usage Limitation on Interest Rate Swaps.

A. Limited Amount

Swaps should not exceed 40% of SoCalGas' total long-term debt outstanding at June 30, 1988.

B. Report

a. Within 15 days, or as soon as available, of entering into a swap agreement, SoCalGas shall provide the CACD with a complete copy of the executed agreement and all associated documentation; and

b. SoCalGas shall separately report all interest income and/or expenses arising from all swaps in all monthly and annual financial reports to the Commission.

C. Limits on Type of Swaps

a. All swaps shall be denominated in U.S. dollars with no other associated hedging devices and

b. Swaps shall be restricted to an exchange of SoCalGas' medium or long-term obligations.

Competitive Bidding

A. Public Offerings by Competitive Bidding

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 also authorize this Commission to grant exemptions from the competitive bidding requirements.

In Resolution F-616, this Commission set forth its current policy regarding exemption from its Competitive Bidding Rule. This Commission stated that the Competitive Bidding Rule is mandatory for all domestic debt issues of debentures and first mortgage bonds of $200,000,000 or less.

All of SoCalGas' underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds in the principal amount of $200,000,000 or less effected in domestic capital markets will be competitively bid. The principal amounts and maturities, the redemption, security, subordination and conversion provisions (if any) and the other terms and provisions of the Debt Securities issued in each financing sold by means of competitive bidding will be established by SoCalGas prior to the particular offering. The price of the Debt Securities and interest rate thereon will be that specified by the qualified bid for the Debt Securities which provides SoCalGas with the lowest cost of money.

In Resolution F-616, the Commission also modified its prior policy and stated that telephonic competitive bidding is allowable. SoCalGas, consistent with the modification, requests authority to telephonically invite the submission of bids and to receive bids by telephone from three or more underwriters or groups thereof, in lieu of newspaper publication of an invitation for bids and the submission and opening of sealed written bids.

SoCalGas also requests authority (a) to accelerate the scheduled date and time of the receipt of bids and/or vary the terms and provisions of the securities submitted for bid and (b) to reject all bids and request resubmission of bids for securities with the same terms and provisions.

B. Exemption for Debt Issues for Which Competitive Bidding is Not Viable or Available

In response to the numerous changes which have occurred in the financial markets since the adoption of the Competitive Bidding Rule, this Commission in Resolution F-616 exempted from this rule all "debt issues for which competitive bidding is not viable or available." SoCalGas' application states that while Resolution F-616 does not specify the type of financings that come within the new exemption, this Commission's "Report on the California Public Utilities Commission's Competitive Bidding Rule for Issuance of Debt Securities" dated September 5, 1986 (Report), contained a discussion of reasons for the exemption and specifically referred to types of debt instruments that should be exempt. The Report states, in relevant part: "A number of . . . debt securities, either by their nature or by established business practices do not lend themselves to competitive bidding. Securities privately placed with specific lenders and bank term loans obviously must be negotiated. Competitive bidding is not presently available in European or Japanese markets . . . . Variable interest rate debt is normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule. However, domestic issues of debentures and first-mortgage bonds still lend themselves quite nicely to competitive bidding . . . ."

SoCalGas states in the application that financings involving Debt Securities other than domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds, including without limitation, Medium-Term Notes, interest rate swaps and Debt Securities issued in connection with interest rate swaps for which competitive bidding is not a viable or available option, may be effected without competitive bidding. SoCalGas requests authorization to effect financings exempt from competitive bidding for those debt issues, other than domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds.

SoCalGas believes that at times it may be able to obtain more desirable terms and conditions or a lower cost through debt financings for which competitive bidding is not viable or available. SoCalGas intends to confine such financings to those which it is reasonably confident it can obtain at more favorable terms and conditions or lower costs than are available at the same time through domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds.

The terms and conditions of Debt Securities issued in each financing sold by means other than competitive bidding will be determined by negotiations between SoCalGas and the underwriters selected for the proposed offering or the lenders or investors to whom the Debt Securities are to be issued. The amount, terms and conditions of debt financing obtained through commercial bank borrowings will be established by negotiations between SoCalGas and the lenders.

1. Medium-Term Notes

Under Resolution F-616, the Competitive Bidding Rule is not applicable to debt issues for which competitive bidding is not viable or available. SoCalGas' Medium-Term Note program would be marketed through dealers on a best-efforts or agency basis that is incompatible with the Competitive Bidding Rule. Therefore, SoCalGas requests authorization to effect its financings through the issuance of Medium-Term Notes on a continuous or periodic basis through a group of dealers on a best-efforts or agency basis without complying with the Competitive Bidding Rule.

B. Interest Rate Swaps and Debt Securities Issued in Connection with Interest Rate Swaps

Under Resolution F-616, the Competitive Bidding Rule is not applicable to debt issues for which competitive bidding is not viable or available. SoCalGas therefore requests authority to effect its financings involving interest rate swap agreements and Debt Securities issued in connection with interest rate swap agreements without complying with the Competitive Bidding Rule.

The existing swap market does not operate in such a manner so as to make it possible for SoCalGas to solicit bids for interest rate swaps or for Debt Securities to be issued in connection therewith. Interest rate swaps are opportunistic transactions that are not always available to SoCalGas on attractive terms. When an economic interest rate swap opportunity does become available, SoCalGas may be one of many firms to which the interest rate swap has been presented. Thus SoCalGas must be able to respond quickly to take advantage of such an opportunity.

Similarly, SoCalGas must be positioned to issue its Debt Securities in connection with interest rate swaps when a lower interest rate can be obtained than would otherwise be available. In order to arrive at a lower overall cost than otherwise could be obtained, the security and the interest rate swap must be priced as one transaction. The timing and the terms of the Debt Security and the interest rate swap must match and one transaction cannot proceed without the other.

C. Exemption for the Competitive Bidding Rule to Eliminate the One-Day Notice Period

With respect to financings to be effected in domestic capital markets through competitively bid underwritten public offerings, SoCalGas seeks authority to eliminate the one-day notice requirement of the Competitive Bidding Rule referred to in Resolution F-616. Through the use of the Securities and Exchange Commission's shelf registration procedures, it is possible to price an offering when market conditions appear most favorable. It is therefore desirable to be able to contact prospective bidders and to adjust the terms of the offering up to the last moment. Adjustments in the size or terms of an offering may come on the day of the pricing in response to the current market conditions. Prospective bidders can adequately respond to the adjusted terms without having a 24-hour period to consider the change.

Issuance and Sale of Series Preferred or Preference Stock

SoCalGas proposes to obtain equity capital in an aggregate principal amount up to $50,000,000 by the sale of a up to 2,000,000 shares of its Series Preferred Stock or Preference Stock. The proceeds obtained from such sale(s) will be used to reimburse SoCalGas' treasury for money expended, or to be expended, for expansion and betterment of utility plant.

SoCalGas proposes to obtain equity capital by the issuance and sale of shares of its Series Preferred Stock or Preference Stock, from time to time, through one or more public offerings or private placements. Substantially concurrent with each such sale of Series Preferred Stock or Preference Stock, SoCalGas proposes to distribute shares of its common stock to Pacific Enterprises, as a stock dividend, so that Pacific Enterprises' current percentage ownership of SoCalGas' voting stock will not be diluted.

The CACD has not reviewed a proposed Shelf Registration Program. SoCalGas agreed verbally with the CACD that a Shelf Registration Program would be inappropriate and will not be used by the utility.

<u>Series Preferred Stock or Preference Stock</u>

SoCalGas states in the application that the proposed sale of shares of its Series Preferred Stock or Preference Stock will be effected through the offering and sale of such shares to the public through either negotiated underwritings or by private placements with institutional or other investors. The sale(s) will be effected at any time, or from time to time, and will result in the issuance of shares of Series Preferred Stock or Preference Stock sufficient to provide SoCalGas with equity capital in an aggregate principal amount of up to $50,000,000. SoCalGas anticipates that it will issue a maximum of not more than 2,000,000 shares of its Series Preferred Stock or Preference Stock.

The precise amount and timing of each offering and sale of one or more series of Series Preferred Stock or Preference Stock, the method of sale, the price, the dividend rate (which may be fixed, adjustable, variable or set by auction), the liquidation preference and other rights, references, privileges and restrictions to be granted to or upon these shares, including redemption and sinking fund provisions (if any), have not yet been determined. This will be established prior to the offering and sale by SoCalGas with due regard for its financial requirements and the prevailing and anticipated market conditions at the time of sale.

The offering and sale will be effected through the use of purchase and underwriting agreements and other documents and instruments customary for issuance of capital stock by the method selected by SoCalGas.

SoCalGas therefore requests authorization to obtain an aggregate amount of up to $50,000,000 in equity capital by the issuance and sale of shares of its Series Preferred Stock or Preference Stock as contemplated herein.

Common Stock to be Issued to Pacific Enterprises

All of SoCalGas' common stock and about 93.2% of all of its outstanding shares of voting capital stock are currently owned by Pacific Enterprises. In order to avoid the dilution of Pacific Enterprises' ownership of SoCalGas' voting capital stock which would otherwise result from the sale and issuance of the Series Preferred Stock or Preference Stock contemplated by the application, SoCalGas seeks authority to distribute to Pacific Enterprises, as a stock dividend, shares of SoCalGas' common stock, substantially concurrent with each offering of its Series Preferred Stock or Preference Stock, sufficient to maintain Pacific Enterprises' current percentage of ownership of voting capital stock. It is expected that in order to maintain Pacific Enterprises' existing percentage of voting rights, about 93.2 shares of common stock would be distributed to Pacific Enterprises as a stock dividend for every 6.8 shares of Series Preferred Stock or Preference Stock issued. It is anticipated that application of this ratio would result in the distribution by SoCalGas to Pacific Enterprises of a maximum of not more than 27,600,000 shares of common stock in the aggregate in connection with the Series Preferred Stock or Preference Stock proposed to be issued.

SoCalGas therefore requests authorization to distribute shares of its common stock to Pacific Enterprises as contemplated in the application.

Construction Budgets

SoCalGas' estimated construction budgets for calendar years 1988 and 1989 amount to about $693,000,000. Major classification of the total budgeted construction are summarized as follows:

Components		1988	1989
		(In Thousands)	
Distribution:	New Installations	$120,500	$120,000
	Replacements	94,000	95,000
Transmission		42,000	66,000
Underground Storage		10,000	6,000
Land and Buildings		34,000	31,000
Furniture, Equipment and Special Projects		35,000	40,000
	Total	$335,500	$358,000

SoCalGas is placed on notice, by this decision, that the Commission does not find SoCalGas' construction budgets are necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

Components	1988	1989
	(In Thousands)	
Funds Needed for Construction Expenditures	$335,500	$358,900
Bond Maturities and Redemptions	93,150	60,600
Bond Sinking Fund Requirements	21,251	15,791
Short-Term Debt Outstanding at Beginning of Year	137,259	68,400
Total	$608,046	$524,491
Less: Estimated Internal Cash Generation	167,878	220,891
Additional New Funds Required from Outside Sources	$440,168	$303,600

The CACD has analyzed SoCalGas' cash requirements forecasts for 1988 and 1989 shown as part of Exhibit E, Schedule III. The CACD has concluded that internally generated funds will provide about 28% or $167,878,000 of the capital requirements in 1988 and about 42% or $220,891,000 in 1989. SoCalGas will require additional funds from outside sources amounting to $440,168,000 in 1988 and $303,600,000 in 1989. The CACD concludes that the proposed sale of SoCalGas' Debt Securities and Series Preferred Stock or Preference Stock is necessary to help meet forecasted cash requirements which includes capital expenditures.

Findings of Fact

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

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

3. The proposed Debt Securities and Series Preferred Stock or Preference Stock 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 SoCalGas in foreign capital markets than could be obtained in domestic markets.

5. Authorizing SoCalGas to determine the precise amount and timing of each financing, the market in and method by which each financing is effected and the terms and provisions, price of and interest rate of the Debt Securities issued in each financing, within the constraints set forth in the application, is in the public interest.

6. The use of interest rate swaps is reasonable within the limitations proposed herein.

7. It is in the public interest to allow telephonic competitive bidding.

8. Competitive bidding is required only for underwritten domestic public offerings of Debt Securities that consist of fixed interest rate debentures and First Mortgage Bonds.

9. It is in the public interest to allow an exemption from the Competitive Bidding Rule for financings other than domestic underwritten public offerings of Debt Securities that consist of fixed interest rate debentures and First Mortgage Bonds, including without limitation, Medium-Term Notes, interest rate swaps

and Debt Securities issued in connection with interest rate swaps, for which competitive bidding is not a viable or available option.

10. Authorizing SoCalGas to mortgage or otherwise encumber its properties as security for its Debt Securities or other evidences of indebtedness is not adverse to the public interest.

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

12. It is proper to defer the unamortized costs associated with any refunded securities and the premiums (if any) paid in refundings of securities in a memorandum account pending a Commission Order following workshops in A.88-08-001.

13. It is proper for ratemaking purposes that any reduction in the effective cost of money resulting from currency value fluctuations on Debt Securities issued in a foreign-denominated currency be passed on to ratepayers in future rate proceedings as a reduction in the cost of money for all Debt Securities.

14. There is no known opposition and no reason to delay granting the authorities 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 Debt Securities and Series Preferred Stock or Preference Stock are for lawful purposes and the money, property or labor to be obtained thereby is required for these purposes. Proceeds from the issuance and sale of the securities 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 Sections 1904(b) and 1904.1 to enable SoCalGas to proceed with its financings expeditiously.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas), on or after the effective date of this order and on or prior to December 31, 1990, is authorized to do the following:

a. To issue, sell and deliver up to the equivalent in U.S. dollars $325,000,000 aggregate principal amount of SoCalGas' First Mortgage Bonds, debentures, notes or other evidences of indebtedness, including without limitation, overseas indebtedness, foreign securities and loans (to be referred to collectively as Debt Securities) at any time, or from time to time, in one or more financings in domestic or foreign capital markets under the terms and conditions set forth in the application;

b. To issue the Debt Securities denominated in U.S. dollars or other currencies and may reduce or eliminate exposure to currency fluctuations by engaging in currency exchanges or purchases and sales and other arrangements;

c. To mortgage or otherwise encounter its properties as security for the Debt Securities;

d. To determine the precise amount and timing of each financing, the market in and the method by which each is effected, and the principal amounts, maturities and other terms and provisions of the Debt Securities in the manner and subject to the limitations set forth in the application;

e. To defer the unamortized costs associated with the refunded securities and the premiums (if any) paid in refundings of securities as discussed in this decision.

f. To enter into one or more interest rate swap agreements;

g. To telephonically invite the submission of bids and receive bids by telephone in lieu of newspaper publication of an invitation for bids and the submission and opening of sealed written bids;

h. To accelerate the scheduled date and time for the receipt of bids and/or vary the terms and provisions of the Debt Securities submitted for bid, and to reject all bids and telephonically request resubmission of bids for securities with the same terms and provisions;

i. To effect financings other than domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds including without limitation Medium-Term Notes, interest rate swap agreements and Debt Securities issued in connection with interest rate swap agreements, without competitive bidding, because these types of Debt Securities for which competitive bidding is not viable or available are exempt, in accordance with the terms of the Competitive Bidding Rule, as amended, and modified, by Resolution F-616;

j. To issue, sell and deliver Debt Securities under the Competitive Bidding Rule except for the elimination of the one-day notification requirement to solicit bids;

k. To obtain up to $50,000,000 of equity capital in U.S. dollars by the issuance and sale of one or more series of SoCalGas' Series Preferred Stock or Preference Stock at any time or from time to time in one or more public offerings through negotiated underwritings or one or more private placements with institutional or other investors;

l. To determine the precise amount and timing of each offer and sale of SoCalGas' Series Preferred Stock or Preference Stock, the method of sale, the dividend rate (which may be fixed, adjustable, variable or set by auction), the liquidation preference, and other rights, perferences, privileges and restrictions to be granted to or upon such shares, including redemption and sinking fund provisions (if any) and the price thereof; and

m. To distribute, concurrently with the issuance of SoCalGas' Series Preferred Stock or Preference Stock, shares of SoCalGas' common stock to Pacific Enterprises as a stock dividend, sufficient to maintain Pacific Enterprises' current percentage ownership of SoCalGas' voting capital stock.

2. SoCalGas shall use competitive bidding for underwritten domestic public offerings of Debt Securities that consist of fixed interest rate debentures and First Mortgage Bonds;

3. SoCalGas, promptly after its Debt Securities are sold by competitive bidding 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 SoCalGas based on the price and interest rate.

4. SoCalGas, as soon as available, shall file with the Commission three copies of its final prospectus pertaining to the Debt Securities.

5. Promptly after SoCalGas ascertains the price, interest rate, and other terms pertaining to Debt Securities, it shall notify the Commission in writing.

6. SoCalGas, within 30 days after the issuance and sale of the Debt Securities by means other than competitive bidding, shall file with the Commission a report showing why the resulting rate and cost of money to the company were advantageous to SoCalGas and its ratepayers.

7. Any reduction in the effective cost of money resulting from currency value fluctuations on Debt Securities issued in a foreign-denominated currency shall be passed on to ratepayers in future rate proceedings as a reduction in the cost of money for all Debt Securities.

8. SoCalGas shall file the reports required by General Order Series 24.

10. SoCalGas shall use the net proceeds from the sale of the Debt Securities and the Series Preferred Stock or Preference Stock for the purposes set forth in the application.

11. The application is granted as set forth above.

The authority granted by this order to issue the Debt Securities and the Series Preferred Stock or Preference Stock shall become effective when SoCalGas pays $72,865, the fee set by Public Utilities Code Sections 1904(b) and 1904.1 after taking credit for the retirements at maturity of $20,886,000 of 4-3/8% First Mortgage Bonds, Series E and $20,800,000 of 4-5/8% First

Mortgage Bonds, Series F; the redemptions of $19,923,000 of 17-3/8% First Mortgage Bonds, Series O; $93,150,000 of 12-1/4% First Mortgage Bonds, Series Q; $4,660,000 of 12-3/4% First Mortgage Bonds, Series M; $60,600,000 of 12-3/4% Eurodollar Notes; and $21,251,000 for the retirement of a portion of the bonds required for sinking fund payments. In all other respects, this order is effective today.

Dated OCT 26 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
JOHN B. OHANIAN
Commissioners

Commissioner G. Mitchell Wilk being necessarily absent, did not participate.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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OCT 27 1988
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By

CACD/KLH

Decision 88 10 059 OCT 26 1988

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA GAS COMPANY for Authorization to (1) Obtain Debt Capital Not to Exceed the Equivalent of U.S. $325,000,000, (2) Enter into One or More Interest Rate Swap Agreements, (3) Obtain an Exemption from the Competitive Bidding Rule to Eliminate the One-Day Notification Requirement to Solicit Bids, and (4) Obtain Equity Capital Not to Exceed U.S. $50,000,000 by the Issuance and Sale of Shares of its Series Preferred Stock or Preference Stock and to Distribute Shares of its Common Stock to Pacific Enterprises. (U 904 G)	Application 88-09-003 (Filed September 1, 1988)

OPINION

Summary of Decision

This decision grants Southern California Gas Company (SoCalGas) the authority requested in the application.

SoCalGas requests authority, under Public Utilities (PU) Code Sections 816-830 and 851, for the following:

1. To issue, sell and deliver up to $325,000,000 aggregate principal amount of SoCalGas' First Mortgage Bonds, debentures, promissory notes or other evidences of indebtedness including without limitation overseas indebtedness, foreign securities and loans (to be collectively referred to as Debt Securities) at any time or from time to time, on or prior to the effective date of this order and on or prior to December 31, 1990, in one or more financings effected in domestic or foreign capital markets;

2. To issue the Debt Securities denominated in U.S. Dollars or other currencies and to reduce or eliminate exposure to currency fluctuations by engaging in currency exchanges or purchases and sales and other arrangements;

The proposed Debt Securities and Series Preferred Stock or Preference Stock are for lawful purposes and the money, property or labor to be obtained thereby is required for these purposes. Proceeds from the issuance and sale of the securities 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 Sections 1904(b) and 1904.1 to enable SoCalGas to proceed with its financings expeditiously.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas), on or after at the effective date of this order and on or prior to December 31, 1990, is authorized to do the following:

   a. To issue, sell and deliver up to the equivalent in U.S. dollars $325,000,000 aggregate principal amount of SoCalGas' First Mortgage Bonds, debentures, notes or other evidences of indebtedness, including without limitation, overseas indebtedness, foreign securities and loans (to be referred to collectively as Debt Securities) at any time, or from time to time, in one or more financings in domestic or foreign capital markets under the terms and conditions set forth in the application;

   b. To issue the Debt Securities denominated in U.S. dollars or other currencies and may reduce or eliminate exposure to currency fluctuations by engaging in currency exchanges or purchases and sales and other arrangements;

   c. To mortgage or otherwise encounter its properties as security for the Debt Securities;