

**ORIGINAL**

Decision 90 07 024 JUL 6 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA )  
GAS COMPANY (U 904 G) for )  
Authorization to (1) Obtain Debt )  
Capital Not to Exceed the )  
Equivalent of U.S. \$175,000,000 )  
(2) Obtain an Exemption From the )  
Competitive Bidding Rule to )  
Eliminate the One-Day )  
Notification Requirement to )  
Solicit Bids, (3) Obtain )  
Equity Capital Not to Exceed )  
U.S. \$75,000,000 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, and (4) Enter into )  
One or More Rate Payment and/or )  
Currency Exchange Contracts. )

Application 90-05-007  
(Filed May 2, 1990)

O P I N I O N

Summary of Decision

This decision grants Southern California Gas Company (SoCal Gas) the authority requested in Application (A.) 90-05-007.

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

1. To issue and sell up to \$175,000,000 aggregate principal amount of SoCal Gas' First Mortgage Bonds, or 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 on or prior to May 31, 1992, 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;
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 permit SoCal Gas 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, postpone or cancel the scheduled date and time for the receipt of bids and/or vary the terms and provisions of the securities submitted for bid; (c) reject all bids; and (d) telephonically request resubmission of bids;
6. 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), without competitive bidding;
7. 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;
8. To obtain equity capital in an aggregate principal amount of up to \$75,000,000 by the issuance and sale of one or more series of SoCal Gas' Series Preferred Stock or Preference Stock at any time, on or after the effective date of this order and on or prior to May 31, 1992, in one or more private placements with institutional or other investors;

9. To determine the precise amount and timing of each offering and sale of SoCal Gas' Series Preferred Stock or Preference Stock, the Method of sale, the dividend rate (which may be fixed, adjustable, variable or set by auction or remarketing procedures), the liquidation preference, and other rights, preferences, privileges and restrictions to be granted to or upon these shares including redemption, repurchase and sinking fund provisions (if any) and the price of those shares;
10. To distribute, substantially concurrent with the issuance of SoCal Gas' Series Preferred Stock or Preference Stock, shares of SoCal Gas' Common Stock to Pacific Enterprises, sufficient to maintain Pacific Enterprises' current percentage ownership of SoCal Gas' voting capital stock;
11. To enter into one or more rate payment and/or currency exchange contracts without competitive bidding; and
12. 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 May 8, 1990. No protests have been received.

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

For the twelve months ended December 31, 1989, SoCal Gas reports in its Statement of Consolidated Income attached to the application as part of Exhibit B that it generated total operating revenues of \$3,275,350,000 and net income of \$180,903,000.

Also shown as part of Exhibit B is SoCal Gas' Consolidated Balance Sheet as of December 31, 1989 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$2,733,757,000
Other Property and Investments -- Net	2,464,000
Current and Accrued Assets	513,228,000
Deferred Debits	<u>277,356,000</u>
Total	\$3,526,805,000

<u>Liabilities &amp; Equity</u>	<u>Amount</u>
Common & Preferred Stock Equity	\$1,326,694,000
Long-Term Debt	925,100,000
Current and Accrued Liabilities	671,582,000
Deferred Credits	599,928,000
Operating Reserves	<u>3,501,000</u>
Total	\$3,526,805,000

#### Issuance and Sale of Debt Securities

SoCal Gas proposes to issue and sell its Debt Securities, up to \$175,000,000 aggregate principal amount, through one or more financings in domestic or foreign capital markets at any time, for the purposes of reimbursing its treasury for monies expended, or to be expended, for expansion and betterment of utility plant and to refund debt securities and/or equity securities retired, or to be retired, at maturity and through sinking fund payments or redemption, including premiums (if any), and to refund debt securities and/or equity securities acquired, or to be acquired, through repurchase or some other method. Except with respect to the Debt Securities issued to refund securities 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 SoCal Gas than the costs (including amortization of premiums and other costs associated with refunding) of the securities 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 (which may be fixed, adjustable, variable or set by auction or remarketing procedures) of the Debt Securities issued in each financing will be determined by SoCal Gas within the constraints set forth in the application with due regard for its financial condition and 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 SoCal Gas' 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 SoCal Gas.

SoCal Gas anticipates that the cost of certain Debt Securities may be reduced by the inclusion of a repurchase option. This option would permit the holders of such Debt Securities to require SoCal Gas to repurchase all or a portion of each holder's Debt Securities. Generally, debt holders are willing to accept a lower interest rate in exchange for the protection that a repurchase option offers them.

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

A. First Mortgage Bonds

SoCal Gas' First Mortgage Bonds would be issued in conformity with the provisions of, and secured by, SoCal Gas' 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 (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 that may be 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 may be 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. Notes can be tailored to an investor's specific maturity needs so as to achieve the lowest cost of funds.

D. Foreign Capital Markets

Debt Securities issued by SoCal Gas 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, SoCal Gas may engage in currency exchanges or purchases and sales and other arrangements. SoCal Gas 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 SoCal Gas in domestic capital markets or through financings not involving foreign currencies. During other periods, SoCal Gas will confine its financings to domestic capital markets or to those not involving foreign currencies.

SoCal Gas is 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 issued in a foreign-denominated currency at the time of issuance and if such an interest rate is determined to be reasonable, may, for ratemaking purposes, use that rate as the maximum embedded cost of money for such securities. The initial interest rate which is determined to be reasonable for such securities will only be the maximum cost of money allowed in future rate proceedings and any reductions in the effective cost of money, resulting from currency value fluctuations, will be passed on to ratepayers in future rate proceedings as a reduction in the cost of money for all debt securities in SoCal Gas' capital structure.

E. Loans

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

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 SoCal Gas' 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 SoCal Gas 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 SoCal Gas 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. SoCal Gas, 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.

SoCal Gas also requests authority (a) to telephonically accelerate, postpone or cancel 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) if necessary due to market conditions, to reject all bids and to telephonically 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." SoCal Gas' application states that while Resolution F-616 does not specify the type of financings that come within the 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 . . .

SoCal Gas 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, Notes, may be effected without competitive bidding. SoCal Gas requests authorization to effect financings exempt from competitive bidding for those debt issues, other than domestic underwritten public offering of fixed interest rate debentures and First Mortgage Bonds.

SoCal Gas 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. SoCal Gas intends to confine such financings to those which it is reasonably confident it can obtain at more favorable terms and conditions or lower 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 SoCal Gas 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 SoCal Gas and the lenders.

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, SoCal Gas 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 minimize the period of time between the issuance of an invitation for bids and the scheduled receipt of bids. The time interval between these events may be reasonably shortened to as little as a few hours. Further, it is desirable to be able to make adjustments in the size or term of an offering up to the last moment in response to the current market conditions. Prospective bidders do not require twenty-four hour notification to adequately respond to an invitation for bids or to adjusted terms.

The Commission Advisory and Compliance Division (CACD) has reviewed SoCal Gas' request and reasons for further modification of the Competitive Bidding Rule as modified by Resolution F-616. SoCal Gas requests the following modifications be made to the Competitive Bidding Rule: (A) to telephonically invite the submission of bids, receive bids from three or more underwriters, accelerate, postpone or cancel the scheduled date and time of the receipt of bids and/or vary the terms and provisions of the securities submitted for bid, reject all bids and request resubmission of bids, all without the necessity of newspaper publication; (B) to effect financings exempt from competitive bidding for those debt issues, other than domestic underwritten public offering of fixed interest rate debentures and First Mortgage Bonds; and (C) to eliminate the one-day notice requirement with respect to financings to be effected in domestic capital markets through competitively bid underwritten public offerings.

The CACD has determined that SoCal Gas has made a compelling showing that exemptions from the Competitive Bidding Rule are warranted and recommends that requests (A) and (C) above should be granted, and that the following specific Debt Securities be exempted from the Rule: Loans, Foreign Securities, Overseas Indebtedness, Notes, and Debt Securities issued with a variable rate of interest. However, fixed-rate Bonds and Debentures sold publicly in the domestic market should be offered through competitive bidding. The CACD notes that in the prior financing decisions for Southern California Edison Company (D.90-04-029, A.89-12-044), San Diego Gas & Electric Company (D.90-02-051, A.89-11-016), and Pacific Gas and Electric Company (D.88-04-063, A.88-02-007), the granting of an exemption from the Competitive Bidding Rule was limited to a similar group of Debt Securities as we have listed in this paragraph. The CACD recommends that the exemption from the Competitive Bidding Rule be limited to these specific Debt Securities in the current application. We will accept the CACD's recommendations.

We place SoCal Gas on notice that if it chooses to issue and sell the company's Debt Securities by means of negotiated private placements, or negotiated public offerings where approved by this decision, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized in SoCal Gas' next general rate proceeding. This may result in a disallowance of the interest expense, if it is determined that the cost of money incurred was not prudent. We will also require SoCal Gas to provide us with a showing of why it believes that the resulting interest rate and cost of money were advantageous to SoCal Gas and its ratepayers. We will require this showing within 15 days after issuance of SoCal Gas' Debt Securities.

Issuance and Sale of Equity Securities

SoCal Gas proposes to obtain equity capital in an aggregate principal amount not exceeding \$75,000,000 by the sale of up to 3,000,000 shares of its Series Preferred Stock or Preference Stock. The proceeds obtained from such sale(s) will be used to reimburse SoCal Gas' treasury for money expended, or to be expended, for expansion and betterment of utility plant and to refund its debt securities and/or equity securities retired or to be retired at maturity and through sinking fund payments or redemption, and to refund debt securities and/or equity securities acquired or to be acquired through repurchase or otherwise.

SoCal Gas 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 in order to maintain its authorized preferred equity ratio. Substantially concurrent with each such sale of Series Preferred Stock or Preference Stock, SoCal Gas proposes to distribute shares of its Common Stock to

Pacific Enterprises, for a nominal purchase price or as a stock dividend or otherwise, so that Pacific Enterprises' current percentage ownership of SoCal Gas' voting stock will not be diluted.

Series Preferred Stock or Preference Stock

SoCal Gas 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, and will result in the issuance of shares of Series Preferred Stock or Preference Stock sufficient to provide SoCal Gas with equity capital in an aggregate principal amount of not to exceed \$75,000,000. SoCal Gas anticipates that it will issue a maximum of not more than 3,000,000 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 or remarketing procedures), dividend period, the liquidation preference and other rights, preferences, privileges and restrictions to be granted to or upon these shares, including redemption, repurchase and sinking fund provisions (if any), have not yet been determined. This will be established prior to the offering and sale by SoCal Gas with due regard for its financial condition and 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 SoCal Gas.

SoCal Gas therefore requests authorization to obtain an aggregate amount of up to \$75,000,000 in equity capital by the issuance and sale of shares of its Series Preferred Stock or Preference Stock as contemplated in the application.

Common Stock to be Issued to Pacific Enterprises

All of SoCal Gas' Common Stock and approximately 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 SoCal Gas' voting capital stock which would otherwise result from the issuance and sale of the Series Preferred Stock or Preference Stock contemplated by the application, SoCal Gas seeks authority to distribute to Pacific Enterprises, for a nominal purchase price or as a stock dividend or otherwise, shares of SoCal Gas' 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.

SoCal Gas therefore requests authorization to distribute shares of its Common Stock to Pacific Enterprises as contemplated in the application.

Currency Exchange Contracts

SoCal Gas requests that the Commission grant SoCal Gas authority to enter into one or more currency exchange contracts from time to time.

A. Description of Currency Exchange Contracts

In the event SoCal Gas issues securities denominated in currencies other than United States Dollars, to reduce or eliminate the risk of currency fluctuations, SoCal Gas may enter into one or more currency exchange contracts or purchases and sales or other arrangements. Currency exchange contracts are agreements by which a counterparty would be obligated to pay SoCal Gas the foreign currency SoCal Gas needs to make interest

or dividend payments. In exchange, SoCal Gas would pay to a counterparty United States Dollars based on a pre-determined formula. Currency exchange contracts would be entered into with financial institutions or directly with principals in need of United States Dollars.

B. Notice Regarding Foreign Securities and  
Notes Denominated in a Foreign Currency

SoCal Gas is placed on notice, by this decision, that the Commission will review the reasonableness of the effective interest rates for Foreign Securities and Notes issued by SoCal Gas in a foreign denominated currency. Any reductions in the effective cost of money resulting from currency value fluctuation will be passed on to SoCal Gas' ratepayers in future ratemaking proceedings as a reduction of the cost of money for all debt securities in SoCal Gas' capital structure. Any losses incurred by SoCal Gas as a result of currency value fluctuations on the redemption, refunding or conversion of any of its debt securities will not be passed on to the ratepayers in future rate proceedings as increases in the cost of money of all debt securities in SoCal Gas' capital structure.

Rate Payment Exchange Contracts

SoCal Gas requests that the Commission grant SoCal Gas authority to enter into one or more Rate Payment Exchange Contract (R.P. Exchange Contracts) from time to time.

A. Description of R.P. Exchange Contracts

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

R.P. Exchange Contracts were created to take advantage of arbitrage 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 structures differs from market to market.

The CACD recommends that within 15 days after entering into an R.P. Exchange Contract, SoCal Gas should furnish the Commission with a report comparing the all-in cost of the R.P. Exchange Contract with the all-in cost of money without an R.P. Exchange Contract. In addition, SoCal Gas should submit a semiannual report to the Commission showing all R.P. Exchange Contract receipts and payments. This report would only be filed for periods when an R.P. Exchange Contract is outstanding.

The following restrictions and limitations should be placed on SoCal Gas in relation to R.P. Exchange Contracts:

1. Reports

- a. Within 15 days of entering into an R.P. Exchange Contract, SoCal Gas shall furnish to the CACD a report analyzing the R.P. Exchange Contract including all costs associated with the R.P. Exchange Contract in comparison to a projection of "all-in cost" without an R.P. Exchange Contract.
- b. Within 45 days of entering into an R.P. Exchange Contract, SoCal Gas shall provide the CACD with a complete copy of the executed agreement and all associated documentation.
- c. SoCal Gas shall separately report all interest income and/or expenses arising from all R.P. Exchange Contracts in all monthly and annual financial reports to the Commission.

2. Limit on Rate Recovery

- a. If SoCal Gas elects to terminate the R.P. Exchange Contract before the original maturity or the R.P. Exchange Contract partner terminates the R.P. Exchange Contract, all costs associated with the termination shall be subject to review in SoCal Gas' next Cost of Capital proceeding.



3. Limit on Amount of R.P. Exchange Contracts

- a. R.P. Exchange Contracts shall not exceed 40% of SoCal Gas' total long-term debt outstanding at any one time.
- b. R.P. Exchange Contracts shall not exceed 40% of SoCal Gas' total preferred equity outstanding at any one time.

The Commission has considered the CACD's recommendations and, finding them reasonable, will adopt them as stated above.

SoCal Gas is placed on notice, by this decision, that the Commission will review the reasonableness of the effective interest rates for R.P. Exchange Contracts issued by SoCal Gas in conjunction with SoCal Gas' next Cost of Capital proceeding. Any reductions in the effective cost of money resulting from R.P. Exchange Contracts will be passed on to SoCal Gas' ratepayers in future Cost of Capital proceedings as a reduction of the cost of money for all debt securities in SoCal Gas' capital structure.

Competitive Bidding Rule Not Applicable

In accordance with Resolution No. F-616, the Competitive Bidding Rule is not applicable in situations for which competitive bidding is not viable or available. SoCal Gas requests authority to enter into rate payment exchange contracts and currency exchange contracts without complying with the Competitive Bidding Rule.

The existing market does not operate in such a manner so as to make it possible for SoCal Gas to solicit bids for rate payment exchange contracts or currency exchange contracts. Rate payment exchange contracts and currency exchange contracts are opportunistic transactions that are not always available to SoCal Gas on attractive terms. When an economic exchange opportunity does become available, SoCal Gas may be one of many companies to which the exchange has been presented. Thus SoCal Gas must be able to respond quickly to take advantage of such an opportunity.

The CACD has determined that SoCal Gas has made a compelling showing that exemptions from the Competitive bidding Rule are warranted and recommends that SoCal Gas' request be granted. We will accept the CACD's recommendation.

#### Use of Proceeds from the Sale of Debt Securities

The Commission Advisory and Compliance Division (CACD) has reviewed SoCal Gas' application and its proposed sale of Debt Securities for the purposes set forth in the application. The CACD has concluded that SoCal Gas' 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.

#### Capital Ratios

SoCal Gas' capital ratios as of December 31, 1989 are shown below as recorded and adjusted to give *pro forma* effect to the financings contemplated by the application:

<u>Component</u>	<u>December 31, 1989</u>	<u>Pro Forma</u>
Long-Term Debt	38.8%	41.5%
Short-Term Debt	<u>4.3</u>	<u>7.0</u>
Total	43.1%	48.5%
Preferred Stock	10.4	8.9
Common Equity	<u>46.5</u>	<u>42.6</u>
Total	100.0%	100.0%

1. The proposed issuance and sale of \$200,000,000 aggregate principal amount of Debt Securities authorized in Decision (D.) 88-10-059 dated October 26, 1988 in A.88-09-003;
2. The proposed issuance and sale of \$175,000,000 aggregate principal amount of Debt Securities requested in this application;

3. The proposed issuance and sale of \$75,000,000 aggregate amount of Series Preferred Stock or Preference Stock requested in this application;
4. The retirement of \$20,800,000 aggregate principal amount of outstanding 4-3/4% First Mortgage Bonds, Series E (issued by Southern Counties Gas Company of California);
5. The retirement of \$20,800,000 aggregate principal amount of outstanding 5-7/8% First Mortgage Bonds, Series G;
6. The redemption of \$19,500,000 aggregate principal amount of outstanding 9-1/2% First Mortgage Bonds, Series F (issued by Southern Counties Gas Company of California);
7. The redemption of \$61,500,000 aggregate principal amount of its \$10 Dividend Series Preferred Stock;
8. The retirement of a portion of the bonds required for sinking fund payments in the aggregate principal amount of \$17,855,000;
9. The estimated increase in retained earnings of \$146,814,000 for 1990 and 1991.

#### Construction Budgets

SoCal Gas' estimated construction budgets for calendar years 1990 and 1991 amount to about \$781,000,000. Major classification of the total budgeted construction are summarized as follows:

<u>Components</u>	<u>1990</u>	<u>1991</u>
Distribution:		
New Installations	\$125,000,000	\$130,000,000
Replacements	86,000,000	101,000,000
Transmission	102,000,000	82,000,000
Underground Storage	8,000,000	11,000,000
Land and Buildings	27,000,000	33,000,000
Furniture, Equipment and Special Projects	<u>35,000,000</u>	<u>41,000,000</u>
Total	\$383,000,000	\$398,000,000

SoCal Gas is placed on notice, by this decision, that the Commission does not find that SoCal Gas' 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

SoCal Gas' Cash Requirements Forecasts for 1990 and 1991 are summarized below:

<u>Components</u>	<u>1990</u> (In Thousands)	<u>1991</u> (In Thousands)
Construction Expenditures	\$383,000	\$398,000
Bond Maturities and Redemptions	101,800	20,800
Bond Sinking Fund Requirements	8,755	9,100
Short-Term Debt Outstanding at Beginning of Year	<u>99,985</u>	<u>116,300</u>
Total	\$593,540	\$544,200
Less:		
Estimated Internal Cash Generation	<u>135,690</u>	<u>238,800</u>
Additional New Funds Required from Outside Sources	\$457,850	\$305,400

The CACD has analyzed SoCal Gas' cash requirements forecasts for 1990 and 1991 shown as part of Exhibit D, Schedule III. The CACD has concluded that internally generated funds will provide 22.9% or \$135,690,000 of the capital requirements in 1990 and 43.9% or \$238,800,000 in 1991. SoCal Gas will require additional funds from outside sources amounting to \$457,850,000 in 1990 and \$305,400,000 in 1991. The CACD concludes that the proposed sale of SoCal Gas' 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. SoCal Gas, a California corporation, operates as a public utility under the jurisdiction of this Commission.
2. SoCal Gas 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 SoCal Gas in foreign capital markets than could be obtained in domestic markets.
5. Authorizing SoCal Gas 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. It is in the public interest to allow telephonic competitive bidding.
7. Transactions which relate to obtaining Loans, issuing variable rate Debt Securities and issuing Overseas Indebtedness, Foreign Securities, and Notes should not be required to be made through the Commission's Competitive Bidding Rule. With respect to fixed-rate Bonds and Debentures sold publicly in the domestic market, it is in the public interest to modify the Commission's competitive bidding requirements to permit SoCal Gas 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; to telephonically accelerate, postpone or cancel the scheduled date and time of the receipt of bids and/or vary the terms and provisions of the securities submitted for bid and;

if necessary due to market conditions, to reject all bids and to telephonically request resubmission of bids for securities with the same terms and provisions.

8. 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.

9. It is proper for ratemaking purposes that any reduction in the effective cost of money resulting from R.P. Exchange Contracts be passed on to ratepayers in future Cost of Capital proceedings as a reduction in the cost of money for all Debt Securities.

10. Authorizing SoCal Gas 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. The use of Rate Payment and Currency Exchange contracts is reasonable within the limitations proposed herein.

13. 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 §1904(b) and §1904.1 to enable SoCal Gas to proceed with its financings expeditiously.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCal Gas), on or after the effective date of this order and on or prior to May 31, 1992, is authorized to do the following:

- a. To issue and sell up to the equivalent in \$175,000,000 aggregate principal amount of SoCal Gas' First Mortgage Bonds, debentures, promissory 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, 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 Dollars or other currencies;
- c. To mortgage or otherwise encumber 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 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;
- f. To accelerate, postpone or cancel 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, if necessary due to market conditions, reject all bids and telephonically request resubmission of bids;
- g. To issue, sell, and deliver Variable Rate Debt Securities, Overseas Indebtedness, Foreign Securities, Notes, and obtain Loans exempt from the requirements of the Commission's Competitive Bidding Rule;
- h. To obtain up to \$75,000,000 equity capital by the issuance and sale of one or more series of SoCal Gas' Series Preferred Stock or Preference Stock at any time in one or more public offerings through negotiated underwritings or one or more private placements with institutional or other investors;
- i. To determine the precise amount and timing of each offer and sale of SoCal Gas' Series Preferred Stock or Preference Stock, the method of sale, the dividend rate (which may be fixed, adjustable, variable or set by auction or remarketing procedures), the liquidation preference, and other rights, preferences, privileges and restrictions to be granted to or upon such shares, including redemption, repurchase and sinking fund provisions (if any) and the price thereof;
- j. To distribute, concurrently with the issuance of SoCal Gas' Series Preferred Stock or Preference Stock, shares of SoCal Gas' Common Stock to Pacific Enterprises,



for a nominal purchase price or as a stock dividend or otherwise, sufficient to maintain Pacific Enterprises' current percentage ownership of SoCal Gas' voting capital stock;

- k. To enter into one or more Rate Payment and/or Currency Exchange Contracts consistent with the limitations and restrictions provided herein; and
- l. To enter into one or more Rate Payment and/or Currency Exchange Contracts without competitive bidding.

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

3. Within 15 days of execution, SoCal Gas shall file with the Commission three copies of its final prospectus pertaining to the Debt Securities and equity securities.

4. SoCal Gas shall notify the Commission, in writing, within 15 days of ascertaining the price, interest rate, dividend rate, and other terms pertaining to Debt Securities and equity securities.

5. Within 15 days after the issuance and sale of its Debt Securities by competitive bidding, SoCal Gas 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 Gas based on the price and interest rate.

6. Within 15 days after the issuance and sale of the Debt Securities by means other than competitive bidding, SoCal Gas shall file with the Commission a report showing why the resulting rate and cost of money to the company were advantageous to SoCal Gas 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. SoCal Gas shall file copies of all Rate Payment Exchange Contracts and other Exchange Contract related reports as described in this decision.

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

10. SoCal Gas shall submit an original and four copies of the reports required by ordering paragraphs 2 through 8 to the CACD with a transmittal letter stating the application and decision numbers. Parties need not be served with copies of the reports unless they request such service in writing. When service is made on parties who request copies of the report, SoCal Gas shall attach to its report a certificate showing service by mail upon all those requesting copies. The Director of CACD shall send the original and one copy to the Docket Office for filing.

11. SoCal Gas 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.

12. The application is granted as set forth above.

A90-05-007

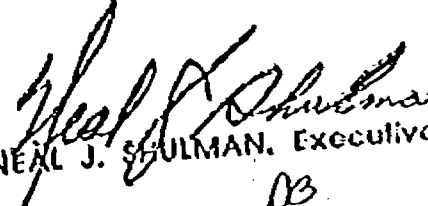
A-6033T CACD/BVC

The authority granted by this order to issue the Debt Securities and the Series Preferred Stock or Preference Stock shall become effective when SoCal Gas pays \$60,772.50, the fee set by Public Utilities Code §1904(b) and §1904.1 after taking credit for the retirements at maturity of \$20,800,000 of 4-3/4% First Mortgage Bonds, Series E (issued by Southern Counties Gas Company of California) and \$20,800,000 of 5-7/8% First Mortgage Bonds, Series G; the redemptions of \$19,500,000 of 9-1/2% First Mortgage Bonds, Series F (issued by Southern Counties Gas Company of California) and \$61,500,000 of \$10 Dividend Series Preferred Stock; and \$17,855,000 for the retirement of a portion of the bonds required for sinking fund payments.

In all other respects, this order is effective today.  
Dated JUL 6 1990, at San Francisco, California.

G. MITCHELL WILK  
President  
FREDERICK R. DUDA  
STANLEY W. HULETT  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
Commissioners

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

  
NEAL J. SCHULMAN, Executive Director  
PB