

Decision 90-11-070 November 21, 1990

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.  
\$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  
Preference Stock or Preference  
Stock and to Distribute Shares  
of its Common Stock to Pacific  
Enterprises, and (4) Enter into  
One or More Rate Payments and/or  
Currency Exchange Contracts  
(U 904G).

**ORIGINAL**

Application 90-05-007  
Petition for Modification  
(Filed August 29, 1990)

S U P P L E M E N T A L   O P I N I O N

Summary of Decision

By this order, we grant in part the petition for modification (Petition) of Decision (D.) 90-07-024 filed on August 29, 1990, by Southern California Gas Company (SoCalGas). Per SoCalGas' request, we modify D.90-07-024 to eliminate the one-day notice requirement for certain financings. However, we deny SoCalGas' requested language modification regarding rate payment exchange contracts<sup>1</sup>. Instead, we modify this decision to clarify our intent that the 40% limitation on rate payment exchange contracts should be applied on each component of SoCalGas' long term debt and preferred equity.

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<sup>1</sup> These are commonly referred to as interest rate swaps. An interest rate swap is an agreement between two parties to exchange interest payments for a specific period of time based on a specified principal amount. Interest rate swaps can be used to exchange a fixed interest rate payment for a floating interest rate payment and vice versa.

Rate Payment Exchange Contracts

In D.90-07-024 the Commission authorized SoCalGas to enter into rate payment exchange contracts (referred to in the Decision as "R.P. Exchange Contracts") subject to various restrictions and limitations, including the following:

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

- a. R.P. Exchange Contracts shall not exceed 40% of SoCalGas' total long-term debt outstanding at any one time.
- b. R.P. Exchange Contracts shall not exceed 40% of SoCalGas' total preferred equity outstanding at any one time." (D.90-07-024, mimeo. page 17)

On August 29, 1990, SoCalGas filed a Petition of D.90-07-024. No protests to the Petition have been received. SoCalGas states that it believes that the language setting forth the limitation on the amount of R.P. Exchange Contracts is unclear and subject to conflicting interpretations. According to SoCalGas, it is unclear as to whether the limitation on the amount of R.P. Exchange Contracts is based upon the aggregate amount of long-term debt and preferred equity. SoCalGas believes that the impact on the limitation is also unclear whenever the outstanding amount of long-term debt and/or preferred equity decreases so that the amount of R.P. Exchange contracts then outstanding would exceed the 40% limitation.

SoCalGas requests that paragraph 3 on page 17 of the Decision be modified to read as follows:

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

SoCalGas shall not enter into any R.P. Exchange contracts unless, upon giving effect thereto, the aggregate notional amount covered by R.P.

Exchange Contracts to which SoCalGas is a party shall not exceed 40% of the aggregate amount of SoCalGas' total debt and preferred equity then outstanding."

SoCalGas' current request is consistent with its original filing in this application:

"...the aggregate notional amount covered by rate payment exchange contracts at any one time outstanding shall not exceed 40% of Applicant's total debt and preferred equity." (A.90-05-007, mimeo. page 18, emphasis added.)

However, in D.90-07-024, we did not grant SoCalGas its language on limits for R.P. Exchange Contracts. Instead we adopted the Commission Advisory and Compliance Division's (CACD) recommendations. While our Decision is not specific as to why we adopted CACD's recommended language, there is a substantive difference between the two limitations. Under SoCalGas' language the percent limitation applies to an aggregate amount, whereas CACD's language applies the limitation to each individual component. These limitations can have different results in terms of the level of ratepayers' and stockholders' upward exposure to interest rate fluctuations.

SoCalGas' Petition does not provide new evidence or rationale for changing the intent of the limitations adopted for R.P. Exchange Contracts in D.90-07-024. We prefer to maintain the more conservative interpretation until we have additional experience with this new approach to flexible management of R.P. Exchange Contracts. Therefore, we deny this aspect of the Petition. However, for clarification purposes the language on page 17 of D.90-07-024 should be modified to read as follows:

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

- a. SoCalGas shall not enter into R.P. Exchange Contracts applied to long-term debt financings, unless giving effect thereto, the aggregate notional amount covered by R.P. Exchange Contracts applied to long-term debt financings shall not exceed 40% of SoCalGas' total long-term debt then outstanding.
- b. SoCalGas shall not enter into R.P. Exchange Contracts applied to Preferred equity financings, unless giving effect thereto, the aggregate notional amount covered by R.P. Exchange Contracts applied to Preferred equity financings shall not exceed 40% of SoCalGas' total Preferred equity then outstanding."

One-Day Notice Requirement

In A.90-05-007 SoCalGas requested authorization to eliminate the one-day notice requirement with respect to financings to be effected in domestic capital markets through competitively bid underwritten public offerings. In D.90-07-024 the Commission noted that CACD recommended approval of SoCalGas' request and that it would accept CACD's recommendation. However, the authorization to eliminate the one-day notice requirement was not included in the Order. SoCalGas requests that D.90-07-024 be modified to include Ordering Paragraph 1.m. to read as follows:

- "m. To eliminate the one-day notice requirement with respect to financings to be effected in domestic capital markets through competitively bid underwritten public offerings."

SoCalGas' request to modify this aspect of D.90-07-024 should be granted.

Findings of Fact

1. Southern California Gas Company filed a petition for modification of D.90-07-024 on August 29, 1990, requesting clarification of the R.P. Exchange Contract limitations and exemption from the one-day notice requirement for financings to be effected through competitive bidding.

2. SoCalGas requests that the limitation on R.P. Exchange Contracts be interpreted to mean 40% of the aggregate debt and preferred equity.

3. SoCalGas' current request is consistent with the language it presented in its original filing of A.90-05-007.

4. In D.90-07-024, the Commission adopted CACD's recommended language on R.P. Exchange Contracts, which implied that the limitations should be applied to each component of long-term debt and preferred equity separately.

5. SoCalGas' approach could result in a higher than 40% exposure for long-term debt and preferred equity separately.

6. The Commission in D.90-07-024 accepted CACD's recommendation authorizing SoCalGas to eliminate the one-day notice requirement but did not include the authorization in the Order.

Conclusions of Law

1. A public hearing is not necessary.

2. The language setting forth the limitation on the amount of R.P. Exchange Contracts in D.90-07-024 is subject to interpretation and should be clarified with language modifications.

3. Exemption from the one-day notice requirement should be granted.

4. SoCalGas' Petition should be granted to the extent provided in this order.

S U P P L E M E N T A L   O R D E R

IT IS ORDERED that:

1. The petition for modification of Decision (D.) 90-07-024 filed by Southern California Gas Company is granted to the extent provided in this order.

2. D.90-07-024, page 17, Limit on R.P. Exchange Contracts is modified to read as follows:

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

- a. SoCalGas shall not enter into R.P. Exchange Contracts applied to long-term debt financings, unless giving effect thereto, the aggregate notional amount covered by R.P. Exchange Contracts applied to long-term debt financings shall not exceed 40% of SoCalGas' total long-term debt then outstanding.
- b. SoCalGas shall not enter into R.P. Exchange Contracts applied to Preferred equity financings, unless giving effect thereto, the aggregate notional amount covered by R.P. Exchange Contracts applied to Preferred equity financings shall not exceed 40% of SoCalGas' total Preferred equity then outstanding."

3. Ordering Paragraph 1.m. is added to D.90-07-024 as follows:

"1.m. To eliminate the one-day notice requirement with respect to financings to be effected in domestic capital markets through competitively bid underwritten public offerings."

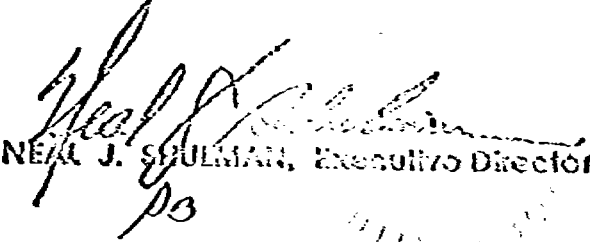
This order is effective today.

Dated November 21, 1990, at San Francisco, California.

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

Commissioner Frederick R. Duda  
being necessarily absent, did  
not participate.

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

  
NEAL J. SPULMAN, Executive Director