CACD/DLW

Decision 91-12-059 December 18, 1991

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company for authorization to (1) obtain Debt Capital not to exceed the equivalent of U.S. $250,000,000, (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. $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, and (4) enter into one or more rate payment exchange, cap, collar and/or currency exchange contracts. (U 904 G)	ORIGINAL Application 91-10-030 (Filed October 10, 1991)

OPINION

Summary of Decision

This decision grants in part and denies in part Southern California Gas Company (SoCalGas) the authority requested in Application 91-10-030 (Application).

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

1. To issue and sell up to U.S. $250,000,000 aggregate principal amount of SoCalGas' 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 or from time to time, on or after the effective date of this order and on or prior to December 31, 1993, in one or more financings effected in domestic or foreign capital markets, in addition to the unused authority granted in Decision (D.)

90-07-024, as modified by D.90-11-070 (which expires on May 31, 1992);

2. To unconditionally guarantee or otherwise secure the obligations of one or more political subdivisions and/or governmental agencies or entities (collectively, the Authorities and individually, the Authority), the proceeds of which are to be used to finance solid waste disposal or other facilities qualifying for tax exempt financing under the Internal Revenue Code (collectively, the Qualified Facilities);

3. To issue the Debt Securities denominated in U.S. Dollars or other currencies;

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

5. 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;

6. 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, 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;

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), without competitive bidding;

8. 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;

9. To obtain equity capital in an aggregate principal amount of up to U.S. $50,000,000 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, on or after the effective date of this order and on or prior to December 31, 1993, in one or more public offerings through negotiated underwritings, private placements or other transactions;

10. 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 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 thereof;

11. To distribute, substantially concurrent with the issuance of SoCalGas' Series Preferred Stock or Preference Stock, shares of SoCalGas' Common Stock to Pacific Enterprises, sufficient to maintain Pacific Enterprises' current percentage ownership of SoCalGas' voting capital stock;

12. To enter into one or more interest rate payment exchange, cap, collar and/or currency exchange contracts without competitive bidding;

13. To use the net proceeds from the sale of the Debt Securities to reimburse 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 and/or equity securities acquired or to be acquired through repurchase or otherwise; and

14. To use the net proceeds from the sale of the equity capital to reimburse its treasury for monies expended or to be expended for expansion and betterment of utility plant and to refund or retire debt securities and/or equity securities acquired or to be acquired through repurchase or otherwise.

Notice of the filing of the application appeared on the Commission's Daily Calendar of October 24, 1991. No protests have been received.

Partial Denial of Application

SoCalGas' proposal in the Application to limit interest rate payment exchange contracts with respect to long-term debt financings in aggregate to 40% of SoCalGas' total long-term debt outstanding at any given time is denied. The Commission Advisory and Compliance Division (CACD) recommends that instead, a limit of 20% should be imposed to minimize the risk of adverse interest rate fluctuations. The Commission has considered CACD's recommendation and, finding it reasonable, will adopt it as stated above.

Background

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 twelve months ended June 30, 1991, SoCalGas reports in its Statement of Consolidated Income attached to the Application as part of Exhibit B that it generated total operating revenues of $3,073,564,000 and net operating income of $288,392,000.

Also shown as part of Exhibit B is SoCalGas' Consolidated Balance Sheet as of June 30, 1991 summarized as follows:

Assets	Amount
Net Utility Plant	$2,917,762,000
Other Property and Investments	2,099,000
Current and Accrued Assets	357,461,000
Deferred Debits	193,033,000
Total	$3,470,355,000
Liabilities & Equity	
Common and Preferred Stock Equity	$1,467,497,000
Long-Term Debt	1,047,370,000
Current and Accrued Liabilities	369,644,000
Deferred Credits	582,343,000
Operating Reserves	3,501,000
Total	$3,470,355,000

Capital Ratios

SoCalGas' capital ratios as of December 31, 1990 as recorded and adjusted to give pro forma effect to the financings contemplated by the Application, as well as proposed long-term debt issues under unused financing authority and maturities and redemptions of long-term debt, are as follows:

Component	December 31, 1990	Pro Forma
Long-Term Debt	41.0%	41.3%
Short-Term Debt	2.6	4.2
Total Debt	43.6	45.5
Preferred Stock	10.3	10.2
Common Equity	46.1	44.3
Total	100.0%	100.0%

1. The issuance and sale of $150,000,000 aggregate principal amount of First Mortgage Bonds, Series Y;
2. The proposed issuance and sale of $25,000,000 aggregate principal amount of debt securities;

3. The proposed issuance and sale of $250,000,000 aggregate principal amount of Debt Securities requested in the Application;

4. The proposed issuance and sale of $50,000,000 aggregate amount of Series Preferred Stock or Preference Stock requested in the Application;

5. The retirement of $20,800,000 aggregate principal amount of outstanding 5-7/8% First Mortgage Bonds, Series G;

6. The retirement of $100,000,000 aggregate principal amount of outstanding 8-7/8% First Mortgage Bonds, Series U;

7. The redemption of $31,900,000 aggregate principal amount of outstanding 8.85% First Mortgage Bonds, Series H;

8. The redemption of $16,668,000 aggregate principal amount of outstanding 8-3/4% First Mortgage Bonds, Series K;

9. The redemption of $20,001,000 aggregate principal amount of outstanding 8-1/2% First Mortgage Bonds, Series L;

10. The retirement of $10,000,000 aggregate principal amount outstanding of 8-3/4% Medium Term Notes, subject to Put;

11. The retirement of a portion of the bonds required for sinking fund payments in the aggregate principal amount of $8,494,000; and

12. The estimated increase in retained earnings of $183,628,000 for 1991 and 1992.

SoCalGas is placed on notice by this decision that the Commission does not find that SoCalGas' capitalization ratios or the inclusion of short-term debt in its capitalization structure are necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate or cost of capital proceedings.

Construction Budgets

SoCalGas' construction budgets for calendar years 1991 and 1992 amount to about $729,000,000. Major classification of the total budgeted construction are summarized as follows:

Components	1991	1992
	(In Thousands)	
Distribution:		
New Installations	$104,000	$104,000
Replacements	100,000	104,000
Transmission	50,000	62,000
Underground Storage	24,000	30,000
Land and Buildings	23,000	31,000
Furniture and Equipment	43,000	54,000
Total	$344,000	$385,000

CACD has reviewed SoCalGas' construction budgets for the years 1991 and 1992, and has concluded that SoCalGas' proposed sale of SoCalGas' Debt Securities and Series Preferred Stock or Preference Stock is necessary to partially reimburse SoCalGas' treasury for capital acquisitions and improvements to its utility plant or to fund the planned construction.

However, 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

As included in Exhibit D, Schedule III, to the Application, SoCalGas's cash requirements for 1991 and 1992, estimated as of September 30, 1991, are summarized as follows:

Components	1991	1992
	(In Thousands)	
Construction Expenditures	$344,000	$385,000
Bond Maturities and Redemptions	20,800	178,569
Bond Sinking Fund Requirements	1,135	7,359
Short-Term Debt Outstanding at Beginning of Year	64,900	156,300
Total	430,835	727,228
Less: Estimated Internal Cash Generation	78,635	329,528
Additional Funds Required from Outside Sources	$352,200	$397,700

CACD has analyzed SoCalGas' cash requirements forecasts as shown above and has concluded that internally generated funds will provide about 18.3% or $78,635,000 of the capital requirements in 1991 and about 45.3% or $329,528,000 in 1992. SoCal Gas will require additional funds from outside sources amounting to $352,200,000 in 1991 and $397,700,000 in 1992.

CACD concludes that the proposed sale of SoCalGas' Debt Securities and Series Preferred Stock or Preference Stock is reasonable and that authority should be granted. The Commission has considered CACD's recommendations and finding them reasonable, will adopt them as stated above.

Debt Securities

SoCalGas proposes to issue and sell its Debt Securities, up to U.S. $250,000,000 aggregate principal amount, through one or more financings in domestic or foreign capital markets at any time, or from time to time, and/or to unconditionally guarantee or otherwise secure the obligations of the Authorities in respect of their issuance of debt in connection with the tax-exempt financings of Qualified Facilities.

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 precise amount and timing of each financing, the market in and method by which it is effected, price, and interest rate (which may be fixed, adjustable, variable or set by auction or marketing procedures) and other material provisions (including, without limitation, warrants to purchase additional debt securities) of the Debt Securities issued in each financing will be determined by market conditions at the time of sale of each series of the Debt Securities, within the constraints set forth in this Decision.

SoCalGas 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 SoCalGas 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 SoCalGas may issue:

A. <u>First Mortgage Bonds</u>

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 that may be offered on a continuous or periodic basis. Maturities generally range from nine months to fifteen years, although they can extend up to thirty 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 SoCalGas 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 fluctuations, SoCalGas requests to engage in currency exchanges or purchases and sales and other arrangements. SoCalGas will 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.

CACD recommends 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. In order to protect ratepayers from currency value fluctuations, CACD also recommends that any losses incurred by SoCalGas as a result of currency value fluctuations on the redemption, refunding, or conversion of any of its Debt Securities should not be passed on to ratepayers in future rate proceedings as increases in the cost of money of all debt securities in SoCalGas' capital structure. We adopt both of CACD's recommendations.

SoCalGas is placed on notice by this Decision that the Commisison will review the reasonableness of the effective interest rates for any Debt Securities issued in a foreign-denominated cuurency.

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 will 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 those available through the issuance of other Debt Securities.

F. Tax Exempt Financings of Certain Qualified Facilities

SoCalGas indicates that from time to time it may be able to reduce the cost of debt by unconditionally guaranteeing or otherwise securing an Authority's obligations in respect of issuances of debt in connection with the financing of Qualified Facilities.

In order to obtain the benefits of tax-exempt financing for Qualified Facilities, SoCalGas proposes to engage in one or more financings with the Authorities, as part of the $250,000,000 debt capital authorization sought in the Application. The proposed financings with an Authority may be structured as follows:

1. The Authority would issue and sell one or more series of its bonds, notes, debentures or other securities (the Authority Bonds) plus accrued interest to a group of underwriters who would ultimately market the Authority Bonds to the general public. Concurrent with the sale and delivery of the Authority Bonds, SoCalGas would enter into a loan agreement, or other security agreement with the Authority.

2. Concurrent with the sale and delivery of the Authority Bonds, SoCalGas would issue and deliver to the Authority, in consideration of the Authority's obligations under the loan agreement or other security agreement entered into with the Authority, its Debt Securities plus accrued interest (the terms and conditions of such indebtedness to be substantially consistent with the terms and conditions of the Authority Bonds) or would unconditionally guarantee or otherwise secure the Authority's obligations in respect of the Authority Bonds.

SoCalGas requests that it be granted the authority to issue the Authority Bonds in the form of long-term fixed-rate tax-exempt securities, or in the form of floating-rate short-term demand bonds, commercial paper, notes or some other variable interest rate tax-exempt debt instrument. As an additional obligation under the loan agreement, SoCalGas could cause to be delivered an irrevocable letter of credit, or other credit support facility, to the trustee of the Authority Bonds which would permit drawings by the trustee for the payment of unpaid principal and accrued interest on the Authority Bonds.

Competitive Bidding

A. Public Offerings by Competitive Bidding

Rules adopted by the Commission in D.38614 dated January 15, 1946, 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 the Commission to grant exemptions from the competitive bidding requirements.

In Resolution F-616, the 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 to (a) 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, reject all bids and telephonically request resubmission of bids for securities with the same terms and provisions.

B. <u>Exemption for Debt Issues for Which Competitive Bidding is Not Viable or Available</u>

In response to the numerous changes which have occurred in the financial markets since the adoption of the Competitive Bidding Rule, the 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 exemption, the 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, Notes, may be effected without competitive bidding. SoCalGas requests authorization to effect its 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 will confine such financings to those which 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 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.

C. Exemption from 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 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 terms 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.

CACD has reviewed SoCalGas' requests and reasons for further modification of the Competitive Bidding Rule as modified by Resolution F-616. SoCalGas 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 resubmissions of bids, all without the necessity of newspaper publication; (B) to effect financings exempt from competitive bidding for 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.

CACD has determined that SoCalGas 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. CACD notes that in the prior financing decisions for Southern California Edison Company, San Diego Gas & Electric Company, and Pacific Gas and Electric Company, 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. CACD recommends that the exemption from the Competitive Bidding Rule be limited to these specific Debt Securities. We will accept the CACD's recommendations.

We place SoCalGas 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 SoCalGas' 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 SoCalGas to provide us with a showing of why it believes that the resulting interest rate and cost of money were advantageous to SoCalGas and its ratepayers. We will require this showing within fifteen days after issuance of SoCalGas' Debt Securities.

Issuance and Sale of Equity Securities

A. Series Preferred Stock or Preference Stock

SoCalGas proposes to obtain equity capital in an aggregate principal amount up to U.S. $50,000,000 by the sale of 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 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.

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 in order to maintain its authorized preferred equity ratio. 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, for a nominal purchase price or as a stock dividend or otherwise, so that Pacific Enterprises' current percentage ownership of SoCalGas' voting stock will not be diluted.

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. These will be established prior to the offering and sale by SoCalGas 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 SoCalGas.

B. Common Stock to be Issued to Pacific Enterprises

All of SoCalGas' Common Stock and approximately 96% 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 issuance and sale of the Series Preferred Stock or Preference Stock contemplated by the Application, SoCalGas seeks authority to distribute to Pacific Enterprises, for a nominal purchase price or as a stock dividend or otherwise, 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.

SoCalGas therefore requests authorization to distribute shares of its Common Stock to Pacific Enterprises as contemplated in the Application.

Interest Rate Payment Exchange, Cap, Collar and/or Currency Exchange Contracts

SoCalGas requests that the Commission grant SoCalGas authority to enter into one or more interest rate payment exchange, cap, collar and/or currency exchange contracts from time to time. SoCalGas believes that interest rate payment exchange, cap, collar and currency exchange contracts provide it with another tool to manage its cost of capital and may reduce the "all-in" cost of its floating and fixed-rate Debt Securities and equity securities.

A. Interest Rate Payment Exchange Contracts

An interest rate payment 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.

Interest rate payment 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, and because credit perceptions differ from market to market.

CACD has reviewed and analyzed SoCalGas' proposal for the authority to enter into interest rate payment exchange contracts. CACD recommends that the restrictions and limitations placed on SoCalGas, in regards to interest rate swaps, in D.90-11-070 and D.90-07-024, be continued with the following modification. In reviewing the proposal with SoCalGas, it was determined that interest rate payment exchange contracts, in aggregate, with respect to long-term debt financings should not exceed 20% of SoCalGas' total long term debt at any time in order to minimize the risk of adverse interest rate fluctuations.

We concur with CACD's recommendation and the following restrictions and limitations shall be placed on SoCalGas in relation to interest rate payment exchange contracts:

1. Reports

   a. Within fifteen days, of entering into a interest rate payment exchange contract, SoCalGas shall furnish to CACD a report analyzing the interest rate payment exchange contract including all costs associated with such a contract in comparison to a projection of "all-in" cost without such a contract.

   b. Within forty-five days of entering into a interest rate payment exchange contract, SoCalGas shall provide CACD with a complete copy of the executed agreement and all associated documentation.

   c. SoCalGas shall separately report all interest income and/or expenses arising from all interest rate payment exchange contracts in all monthly and annual financial reports to the Commission.

2. Limit on Rate Recovery

   a. If SoCalGas elects to terminate the rate payment exchange contract before the original maturity or the interest rate payment exchange contract partner terminates the interest rate payment exchange contract, all costs associated with the termination shall be subject to review in SoCalGas' next cost of capital proceeding.

3. Limit on Amount of Rate Payment Exchange Contracts

   a. SoCalGas will enter into interest rate payment exchange contracts with respect to long-term debt financings only if, after giving effect thereto, the aggregate notional amount covered by interest rate payment exchange contracts with respect to long-term debt financings shall not exceed 20% of SoCalGas' total long-term debt then outstanding.

b. SoCalGas will enter into interest rate payment exchange contracts with respect to Preferred equity financings only if, after giving effect thereto, the aggregate notional amount covered by interest rate payment exchange contracts with respect to Preferred equity financings shall not exceed 40% of SoCalGas' total Preferred equity then outstanding.

SoCalGas is placed on notice, by this decision, that the Commission will review the reasonableness of the effective interest rates for interest rate payment exchange contracts issued by SoCalGas in conjunction with SoCalGas' next cost of capital proceeding. Any reductions in the effective cost of money resulting from rate payment exchange contracts will be passed on to SoCalGas' ratepayers in future cost of capital proceedings as a reduction to the cost of money for all debt securities in SoCalGas' capital structure. However, in order to protect ratepayers from interest rate payment exchange contracts, any losses incurred by SoCalGas as a result of interest rate payment exchange contracts issued by SoCalGas will not be passed on to the ratepayers in future rate proceedings as increases in the cost of money of all debt securities in SoCalGas' capital structure.

B. <u>Interest Rate Payment Caps and Collars</u>

In order to reduce ratepayers' exposure to interest rate risk on floating rate securities, SoCalGas requests the authority to negotiate some type of maximum rate, usually called a "cap." In that case, even if variable rates increase above the cap or "ceiling" rate, SoCal Gas would only pay the ceiling rate. In addition to the ceiling rate, sometimes the counterparty to the contract desires to have a "floor" rate. In the event that the variable rate falls below the floor rate, SoCalGas would pay the floor rate. The floor and ceiling rates are called "interest rate collars" because the interest rate fluctuates within a band which is negotiated between SoCalGas and the counterparty. Such protection for variable rate obligations is not unlike protection negotiated by consumers for variable rate home mortgages.

C. Currency Exchange Contracts

In the event SoCalGas issues securities denominated in currencies other than U.S. Dollars, to reduce or eliminate the risk of currency fluctuations, SoCalGas requests the authority to 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 SoCalGas the foreign currency SoCalGas needs to make interest or dividend payments. In exchange, SoCalGas would pay to a counterparty U.S. Dollars based on a pre-determined formula. Currency exchange contracts would be entered into with financial institutions or directly with principals in need of U.S. Dollars.

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 SoCalGas in a foreign-denominated currency. Any reductions in the effective cost of money resulting from currency value fluctuation will be passed on to SoCalGas' ratepayers in future ratemaking proceedings as a reduction of the cost of money for all Debt Securities in SoCalGas' capital structure. Any losses incurred by SoCalGas 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 ratepayers in future rate proceedings as increases in the cost of money of all Debt Securities in SoCalGas' capital structure.

D. Exemption from the Competitive Bidding Rule for Interest Rate Payment Exchange Contracts

In accordance with Resolution F-616, the Competitive Bidding Rule is not applicable to institutions for which competitive bidding is not viable or available. SoCalGas requests authority to enter into interest rate payment exchange contracts and currency exchange contracts without complying with the Competitive Bidding Rule.

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

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

Use of Proceeds from the Sale of Debt Securities

SoCalGas proposes to use the net proceeds obtained from such sale(s) 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), 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, SoCalGas will issue these Debt Securities 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 securities refunded.

CACD has reviewed SoCalGas' proposal for the use of the proceeds and has concluded that the proposed financings are for proper purposes.

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, Series Preferred Stock or Preference Stock, and Common 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 price of and interest rate and other material provisions of the Debt Securities issued in each financing, within the constraints set forth in this Decision, is not adverse to the public interest.

6. It is not adverse to the public interest to allow telephonic competitive bidding.

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

8. It is not adverse to 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.

9. 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.

10. It is proper for ratemaking purposes that any losses resulting from currency value fluctuations on Debt Securities issued in a foreign-denominated currency not be passed on to ratepayers in future rate proceedings as an increase in the cost of money for all Debt Securities.

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

12. It is proper for ratemaking purposes that any losses resulting from currency value fluctuations on currency exchange contracts not be passed on to ratepayers in future rate proceedings as an increase in the cost of money for all Debt Securities.

13. It is proper for ratemaking purposes that any reduction in the effective cost of money resulting from interest rate payment exchange agreements be passed on to ratepayers in future rate proceedings as a reduction in the cost of money for all Debt Securities.

14. It is proper for ratemaking purposes that any losses resulting from interest rate swap agreements not be passed on to ratepayers in future rate proceedings as an increase in the cost of money for all Debt Securities.

15. 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.

16. 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.

17. The use of interest rate payment exchange, cap, collar and/or currency exchange contracts is reasonable within the limitations proposed herein.

18. The Commission does not by this Decision determine that SoCalGas' construction budget is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate or rate base offset proceedings.

19. SoCalGas is placed on notice by this Decision that the Commission does not find that SoCalGas' capitalization ratios or the inclusion of short-term debt in its capitalization structure is necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate or cost of capital proceedings.

20. The proposal for SoCalGas to provide security for Authority Bonds would not be adverse to the public interst.

21. A limit on interest rate payment exchange contracts of 40% of SoCalGas' total aggregate long-term debt at any time may pose significant interest rate fluctuation risk. A limit of 20% is reasonable and would not be adverse to the public interest.

22. A limit on interest rate payment exchange contracts of 40% of SoCalGas' total aggregate Preferred equity at any time is reasonable and would not be adverse to the public interest.

23. 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.

3. The proposed Debt Securities, Series Preferred Stock or Preference Stock, and Common 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.

4. In issuing our order, we place SoCalGas and its shareholders on notice that the number of shares outstanding, the total par or book value of these shares and the dividends paid do not determine the allowable return on plant investment. This authorization is not a finding of the value of SoCalGas' stock or property, nor does it indicate the amounts to be included in rate setting procedures.

5. The following order should 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, 1993, is authorized to do the following:

a. To issue and sell up to the equivalent in U.S. $250,000,000 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 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 and/or to unconditionally guarantee or otherwise secure the obligations of one or more governmental agencies or entities (collectively the Authorities), the proceeds of which are to be used to finance certain solid waste disosal or other facilities qualifying for tax exempt financing under the Internal Revenue Code (collectively the Qualified Facilities), under the terms and conditions set forth in Application 91-10-030 (Application);

b. To issue the Debt Securities denominated in U.S. 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 this Decision;

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 bids;

g. To effect financings other than domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds, including, without limitation, medium-term notes (Notes), without competitive bidding, because the 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;

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

i. To obtain not more than U.S. $50,000,000 equity capital by the issuance and sale of not more than 2,000,000 shares 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, private placements or other transactions;

j. 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 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;

k. To distribute, substantially concurrently with the issuance of SoCalGas' Series Preferred Stock or Preference Stock, shares of SoCalGas' 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 SoCalGas' voting capital stock;

l. To enter into one or more interest rate payment exchange, cap, collar and/or currency exchange contracts consistent with the limitations and restrictions provided herein; and

m. To enter into one or more interest rate payment exchange, cap, collar and/or currency exchange contracts without competitive bidding.

n. To use the net proceeds from the sale of the Debt Securities to reimburse 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 and/or equity securities acquired or to be acquired through repurchase or otherwise.

o. To use the net proceeds from the sale of the equity capital to reimburse its treasury for monies expended or to be expended for expansion and betterment of utility plant and to refund or retire debt securities and/or equity securities acquired or to be acquired through repurchase or otherwise.

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. Within fifteen days after its Debt Securities are sold by competitive bidding, SoCalGas shall submit a written report to 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. Within fifteen days of the date initially distributed, SoCalGas shall submit to the Commission three copies of its final prospectus pertaining to the Debt Securities and equity securities sold by public offering.

5. SoCalGas shall notify the Commission, in writing, within fifteen days of ascertaining the price, interest rate, dividend rate, and other terms pertaining to Debt Securities and equity securities.

6. SoCalGas, within fifteen days after the issuance and sale of the Debt Securities by means other than competitive bidding, shall submit to 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. Any losses resulting from currency value fluctuations on Debt Securities issued in a foreign-denominated currency shall not be passed on to ratepayers as an increase in the cost of money for all debt securities.

8. Any reduction in the effective cost of money resulting from currency value fluctuations on currency exchange contracts shall be passed on to ratepayers in future rate proceedings as a reduction in the cost of money for all Debt Securities. Any losses resulting from currency value fluctuations on currency exchange contracts shall not be passed on to ratepayers as an increase in the cost of money for all debt securities.

9. Any reduction in the effective cost of money resulting from interest rate payment exchange agreements shall be passed on to ratepayers in future rate proceedings as a reduction in the cost of money for all Debt Securities. Any losses resulting from interest rate payment exchange agreements shall not be passed on to ratepayers as an increase in the cost of money for all debt securities.

10. Within fifteen days, of entering into a interest rate payment exchange contract, SoCalGas shall furnish to CACD a report analyzing the interest rate payment exchange contract including all costs associated with such a contract in comparison to a projection of "all-in" cost without such a contract.

11. Within forty-five days of entering into a interest rate payment exchange contract, SoCalGas shall provide CACD with a complete copy of the executed agreement and all associated documentation.

12. SoCalGas shall separately report all interest income and/or expenses arising from all interest rate payment exchange contracts in all monthly and annual financial reports to the Commission.

13. SoCalGas shall submit the reports required by General Order Series 24.

14. With respect to reports required by ordering paragraphs 3 through 6, and 10 through 13, parties need not be served with copies of the reports unless they request from SoCalGas such service in writing. When service is made on parties who request copies of a report, SoCalGas 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.

15. 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.

16. SoCalGas is limited to interest rate payment exchange agreements involving no more than 20% of its long-term debt at any one time.

17. SoCalGas is limited to interest rate payment exchange agreements involving no more than 40% of its Preferred equity financings at any one time.

18. The Application is granted and denied in part as previously specified and 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 $63,036.00, the fee set by Public Utilities Code Sections 1904(b) and 1904.1 after taking credit for the retirements of $100,000,000 of 8-7/8% First Mortgage Bonds, Series U, and $10,000,000 of 8-3/4% Medium Term Notes; the redemptions of $31,900,000 of 8.85% First Mortgage Bonds, Series H, $16,668,000 of 8-3/4% First Mortgage Bonds, Series K, and $20,001,000 of 8-1/2% First Mortgage Bonds, Series L; and $7,359,000 for the retirement of a portion of the bonds required for sinking fund payments.

In all other respects, this order is effective today.

Dated December 18, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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

NEAL J. SHULMAN, Executive Director

PB

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
DEC 13 1991
By

Rec. # 35096
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