CACD/DLW

Decision 92 03 049 MAR 11 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas & Electric Company to issue, sell, and deliver one or more series of Debt Securities, to use credit enhancements, to enter into interest rate caps, collars and swaps, and to guarantee the obligations of others in respect of the issuance of certain tax-exempt Debt Securities, the total aggregate principal amount of such indebtedness and guarantees not to exceed $425,000,000; to execute and deliver one or more indentures; to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property; and for an exemption from the Commission's Competitive Bidding Rule. (U 902-M)	ORIGINAL Application 91-10-068 (Filed October 31, 1991)

OPINION

Summary of Decision

This decision grants San Diego Gas & Electric Company (SDG&E) the authority requested in Application 91-10-068 (Application) to issue, sell and deliver one or more series of long-term Debt Securities and to guarantee the obligations of others in connection with the issuance of certain tax-exempt Debt Securities.

SDG&E requests authority under Public Utilities (PU) Code §§ 816, 817, 818, 821, 830, and 851 for the following:

1. To issue, sell and deliver one or more series of First Mortgage Bonds, Debentures, Overseas Indebtedness, Foreign Securities, Medium-Term Notes (Notes), to enter into Loans (collectively, Debt Securities) and/or to guarantee unconditionally or otherwise secure the obligations of one or more political subdivisions (Authority) in respect of

their issuance of debt for facilities qualifying for tax-exempt financing under federal law (Eligible Facilities);

2. To arrange Credit Agreements or other credit facilities as may be necessary for the purpose of issuing the Debt Securities and to modify such credit facilities without further authorization from the Commission;

3. To execute and deliver an indenture or one or more supplemental indentures in connection with any issue of Debt Securities and to sell, lease, assign, mortgage or otherwise dispose of or encumber utility property in connection with the issuance and sale of Debt Securities;

4. To issue, sell and deliver Debt Securities by public offering or private placement;

5. To exempt SDG&E from the Commission's Competitive Bidding Rule with respect to obtaining Loans, issuing Debt Securities or otherwise guaranteeing or securing Authority Bonds in conjunction with financing Eligible Facilities, issuing Variable Rate Debt Securities, Overseas Indebtedness, Foreign Securities and Notes and entering into interest rate swap contracts in conjunction with the issuance of Debt Securities (Structured Transactions);

6. To shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters or purchasers or groups thereof; to accelerate, postpone or cancel the scheduled date and time for receipt of bids; to reject all bids submitted; to request the resubmission of bids; to reschedule subsequent receipt of bids; and to vary the amount, terms, and conditions of the Debt Securities submitted for bids, all of the above to be without newspaper publication;

7. To provide that the total aggregate principal amount of issuances of Debt Securities and guarantees made by SDG&E shall not exceed $425,000,000, and that in the opinion of the Commission, the money, property and labor to be procured or paid with the net proceeds therefrom is reasonably required for the purposes specified in this Decision and that such

proceeds, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income;

8. To provide that SDG&E may utilize at its discretion certain credit enhancements and may enter into certain interest rate caps, collars, and interest rate swap contracts (Swaps), with the authorization for Swaps not to exceed $150,000,000;

9. To provide that the authority granted in this Decision shall be effective when SDG&E has paid the fee, if any, prescribed by PU Code §§ 1904(b) and 1904.1 and to allow SDG&E to apply the portion of the unused fees from previous applications; and

10. To grant such additional authorizations or further relief to SDG&E as the Commission may deem appropriate.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of November 27, 1991. No protests have been received.

Partial Denial of Application

SDG&E requests that the settlement date for the issuance of Debt Securities take place in accordance with normal settlement procedures (e.g., five days) or at a future date. For example, if interest rates were at low levels currently, SDG&E might enter into a contract currently for the issuance of bonds to take place at a future date (Forwards). The Commission Advisory and Compliance Division (CACD) has reviewed SDG&E's request to enter into Forwards in conjunction with the issuance of its Debt Securities and concludes that SDG&E has not made a compelling showing that the use of Forwards is warranted and is in the best interest of the ratepayers. CACD recommends that SDG&E's request be denied and we concur.

Background

SDG&E is a public utility corporation organized and existing under the laws of the State of California, and is primarily engaged in the business of providing electric service in portions of Orange County and electric, gas and steam service in portions of San Diego County.

For the nine months ended September 30, 1991, SDG&E reports in its Statement of Consolidated Income, included in the Supplementary Data provided to CACD, that it generated total operating revenues of $1,241,524,000 and net income of $160,452,000.

SDG&E's Balance Sheet, also included in supplementary data provided to CACD, as of September 30, 1991, is summarized as follows:

Assets	Amount
Net Utility Plant	$3,010,607,000
Other Property and Investments	234,507,000
Current Assets	303,994,000
Deferred Charges	130,074,000
Total	$3,679,182,000
Liabilities and Equity	
Common Equity	$1,339,442,000
Preferred/Preference Stock	142,493,000
Long-Term Debt	1,100,036,000
Current Liabilities	489,411,000
Non-current Liabilities	122,372,000
Deferred Credits	485,428,000
Total	$3,679,182,000

Capital Ratios

SDG&E's capital ratios, included in Schedule IX of the Supplementary Data and reported as of September 30, 1991, are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	September 30, 1991	Pro Forma
Long-Term Debt	44.9%	46.8%
Short-Term Debt	2.1	2.0
Total Debt	47.0%	48.8%
Preferred/Preference Stock	5.0%	4.7%
Common Equity	48.0%	46.5%
Total	100.0%	100.0%

1. The proposed issuance and sale of up to $425,000,000 aggregate principal amount of long-term debt. Up to $300,000,000 of this amount will be used for the refinancing of outstanding long-term debt, leaving a balance of $125,000,000 in new issues.

2. The issuance and sale of $14,400,000 of Pollution Control Bonds, authorized but unissued. The remaining authorization of $85,600,000 is expected to expire unused on December 31, 1991, and is therefore not shown herein.

3. The issuance of up to 1,231,078 shares of SDG&E's Common Stock, without par value, authorized but unissued under SDG&E's 1986 Long-Term Incentive Plan estimated to produce net proceeds of $6,155,390 at the price of $5 per share (the price stated in the Long-Term Incentive Plan).

4. The issuance and sale of up to 348,487 shares of SDG&E's Common Stock, without par value, authorized but unissued under SDG&E's Common Stock Investment Plan estimated to produce net proceeds of $14,810,698 at the assumed price of $42.50 per share (the price as of November 4, 1991).

5. The issuance and sale of up to 607,986 shares of SDG&E's Common Stock, without par value, authorized but unissued under SDG&E's Employee Savings Plan estimated to produce net proceeds of $25,839,405 at the assumed price of $42.50 per share (the price as of November 4, 1991).

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

Construction Budgets

SDG&E's estimated construction budgets for calendar years 1991, 1992 and 1993, included in Schedule I of the Supplementary Data, amount to about $1,000,000,000. Major classifications of the total budgeted construction are summarized as follows:

Components	1991	1992	1993
	(Millions of Dollars)		
Electric Production	$ 51.9	$ 70.7	$116.0
Electric Transmission	25.8	18.2	24.8
Electric Distribution	134.3	169.5	181.3
Gas	43.2	50.2	56.4
Common	15.2	29.8	24.1
Total	$270.4	$338.4	$402.6

CACD has reviewed SDG&E's construction budgets for the years 1991, 1992, and 1993 and has concluded that SDG&E's proposed sale of Debt Securities is necessary to partially reimburse SDG&E's treasury for capital acquisitions and improvements to its utility plant or to fund the planned construction. However, SDG&E is placed on notice by this Decision that the Commission does not find that SDG&E's construction budgets are necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate case or rate base offset proceedings.

Cash Requirements Forecasts

SDG&E's cash requirements for 1991, 1992 and 1993, estimated as of November 1, 1991, are summarized as follows:

Components	1991	1992	1993
	(Thousands of Dollars)		
Funds for Construction	$270.4	$338.4	$402.6
Bond Maturities	0.4	0.4	0.4
Preferred Stock Redemptions	3.0	3.0	4.8
Subtotal	$273.8	$341.8	$407.8
Less: Estimated Internal Cash Generation	$242.3	$135.8	$181.3
Additional Funds Required from External Sources	$ 31.5	$206.0	$226.5

CACD has analyzed SDG&E's cash requirements forecasts for 1991, 1992 and 1993 provided in SDG&E's Supplemental Data as shown in Schedule III. CACD has concluded that internally generated funds will provide about 88% or $242.3 million of the capital requirements in 1991, 40% or $135.8 million in 1992 and 44% or $181.3 million in 1993. CACD concludes that the proposed sale of Debt Securities is necessary to help meet forecasted cash requirements which include capital expenditures.

CACD has reviewed the Application and has concluded that the proposed sale of Debt Securities is reasonable and that the authority should be granted. The Commission has considered CACD's recommendations and finding them reasonable, will adopt them as stated above.

Description of Debt Securities

SDG&E proposes to issue and sell its Debt Securities, up to $425,000,000 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 Eligible Facilities.

The principal amount and the terms and conditions of each issue of Debt Securities will be determined by SDG&E's management and/or board of directors according to market conditions at the time of sale.

Each issue of Debt Securities may contain a provision allowing it to be redeemed or repaid prior to maturity. An early redemption provision may allow the Debt Securities to be redeemed or repaid at any time, or it may allow the Debt Securities to be redeemed or repaid only after a certain restrictive period. In either case, the Debt Securities would be redeemable at a premium over par or at a stated price.

Debt Securities may bear a fixed- or floating-rate of interest and may be issued at par or with an original issue discount or premium. SDG&E will notify the Commission by letter, promptly after the date of issuance of any Debt Securities, of the terms and conditions of those Debt Securities.

With the exception of Notes, each series of Debt Securities is expected to have a maturity of between one year and forty years. Notes are expected to have a maturity of between nine months and forty years.

With the exception of First Mortgage Bonds (as defined below) and Loans, each issue of Debt Securities may be issued under an indenture or a supplement to an existing indenture to be delivered to the trustee for such issue. The indenture or supplemental indenture would set forth the terms and conditions of each issue of Debt Securities.

SDG&E asserts that the settlement date for the issuance of Debt Securities will take place in accordance with normal settlement procedures (e.g., five days) or may be at a future date. For example, if interest rates were at low levels currently, SDG&E might enter into a contract currently for the issuance of bonds to take place at a future date (Forwards).

CACD has reviewed SDG&E's request to enter into Forwards in conjunction with the issuance of its Debt Securities and concludes that SDG&E has not made a compelling showing that the use of Forwards is warranted and is in the best interest of the ratepayers. CACD recommends that SDG&E's request be denied and we concur.

The following describes in greater detail the types of Debt Securities that may be issued:

A. <u>Secured Debt Securities (Bonds)</u>

Security for Bonds may be included in the form of a lien on property (First Mortgage Bonds), a letter of credit, a standby bond purchase agreement, an insurance policy provided by a third party, or through other credit enhancement arrangements. Such credit enhancements may be included to reduce interest costs or improve other credit terms. The cost of such credit enhancements would be included in the cost of the Bonds.

First Mortgage Bonds will be issued in accordance with SDG&E's trust indenture dated as of July 1, 1940, as amended and supplemented and which heretofore has been filed with the Commission. The supplemental indenture delivered in connection with each series of First Mortgage Bonds will be in a form consistent with supplemental indentures previously filed with the Commission.

Bonds may be sold to either domestic or foreign investors. Bonds may be sold to underwriters who in turn will offer the Bonds to investors, or may be sold directly to investors. either with or without the assistance of a private placement agent. Bonds may be registered with the Securities and Exchange Commission (SEC), depending on the method of offering and sale. Bonds may be listed on a stock exchange.

In conjunction with the issuance of Bonds, SDG&E may enter into contractual agreements whereby a third party will provide appropriate credit facilities as security for Bonds. The cost of the credit facilities will be included in determining the overall cost of Bonds.

B. Unsecured Debt Securities (Debentures)

Debentures may be sold to either domestic or foreign investors. Debentures may be sold to underwriters who in turn will offer the Debentures to investors, or may be sold directly to investors either with or without the assistance of a placement agent. Debentures may be registered with the SEC and may be listed on a stock exchange.

C. Overseas Indebtedness

Overseas Indebtedness will be issued and sold ultimately to foreign investors and will likely be denominated in U.S. dollars. Overseas Indebtedness may be sold to underwriters who in turn will offer the Overseas Indebtedness to investors or may be sold directly to investors either with or without the assistance of a placement agent. This type of financing can be advantageous when foreign demand for dollar-denominated securities is high. Overseas Indebtedness will be issued and sold only when such issuances result in an overall cost of money to SDG&E lower than issuances of comparable domestic debt securities in the U.S. market.

D. Foreign Currency Denominated Securities (Foreign Securities)

SDG&E may issue Foreign Securities with the payment of interest or principal, or both, denominated in a foreign currency. Foreign Securities may be sold to foreign or domestic investors and may be denominated in any major foreign currency, including, but not limited to, Dutch guilders, Austrian shillings, British pounds, French francs, German marks, Australian, New Zealand, or Canadian dollars, Japanese yen, Swiss francs, or European Currency Units. Foreign Securities will be issued only if the borrowing costs, including all transaction and foreign exchange contract costs, are lower than a comparable U.S. dollar financing.

In order to reduce or eliminate the risk of currency fluctuations, if Foreign Securities are issued, SDG&E will enter into one or a series of forward contracts by which a counterparty would be obligated to pay SDG&E the foreign currency necessary to make principal, premium, if any, and interest payments (Debt Service Payments) on the foreign security. In exchange, SDG&E will pay a counterparty U.S. dollars based on a pre-determined formula. The forward contract would be with a major financial intermediary, such as a commercial bank, or directly with a principal in need of U.S. dollars. The cost of the forward contracts will be included for determining the overall cost of Foreign Securities.

E. Medium-Term Notes (Notes)

SDG&E may offer Notes as part of a program on a continuous or periodic basis. Notes may be sold privately or publicly in the domestic or foreign capital markets. If sold in foreign capital markets, Notes may be denominated in U.S. dollars or in a foreign currency. If Notes are denominated in a foreign currency, SDG&E will enter into a separate contract whereby its Debt Service Payments would be converted to U.S. dollars.

Notes may require registration under the federal securities laws. Notes may be unsecured or secured as described under Bonds in paragraph A. above. SDG&E may sell Notes through a placement agent who markets Notes on a reasonable efforts basis. SDG&E also may sell Notes to underwriters who in turn offer Notes to investors or may sell Notes directly to investors. Notes may be listed on a stock exchange.

If Notes are sold through a placement agent, SDG&E could use one or more placement agents. Based on market conditions and consultation with the placement agent(s), SDG&E would determine the interest rates at which it would be willing to issue Notes of various maturities. The placement agent(s) would be notified of those interest rates. The rates can be continuously updated to reflect changing market conditions and SDG&E's demand for funds.

F. Direct Loans (Loans)

SDG&E may enter into Loans. Loans are Debt Securities currently outstanding pursuant to a line of credit with banks, insurance companies, or other financial institutions. CACD recommends and we concur that SDG&E enter into Loans only when the Loans are designed to result in an overall cost of money lower than that available through the issuance of alternative Debt Securities.

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

SDG&E 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 SDG&E in a foreign denominated currency. Any reductions in the effective cost of money resulting from currency value fluctuations will be passed on to SDG&E's ratepayers in future ratemaking proceedings as a reduction of the cost of money for all debt securities in SDG&E's capital structure. Any losses incurred by SDG&E 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 SDG&E's capital structure.

Features to Enhance Debt Securities

SDG&E requests authorization to include at its discretion one or a combination of the following additional features in SDG&E's Debt Securities. Such features will be used as appropriate to improve the terms and conditions of SDG&E's Debt Securities and to lower SDG&E's overall cost of money for the benefit of ratepayers.

A. Put Option

SDG&E anticipates that from time to time the cost of SDG&E's Debt Securities may be reduced by the inclusion of a "put" option. This would allow the holders of Debt Securities to require

SDG&E to repurchase all or a portion of each holder's securities. This is the reverse of a call provision whereby SDG&E would have the right to force debtholders to sell the Debt Securities back to the company. Debtholders are willing to accept a lower interest rate in exchange for the protection that a put option offers them.

B. Sinking Fund

SDG&E anticipates that from time to time the cost of SDG&E Debt Securities may be reduced by the use of a "sinking fund." At times, for issuers of high credit standing, the financial marketplace has not valued the sinking fund option sufficiently for its use. However, SDG&E wishes to preserve the ability to use this option should a market preference develop.

C. Tax-Exempt Feature

SDG&E anticipates that from time to time the cost of SDG&E's Debt Securities may be reduced by placing such securities with one or more political subdivisions (Authority) and unconditionally guaranteeing or otherwise securing such Authority's obligations in respect of its issuances of tax-exempt debt in connection with the financing of SDG&E's facilities. SDG&E anticipates using the tax-exempt option whenever its facilities qualify for tax-exempt financing under federal law. In order to obtain the benefits of tax-exempt financing for pollution control and sanitary and solid waste disposal or other Eligible Facilities, including facilities that may be eligible to be financed by "two-county" tax-exempt revenue bonds (Industrial Development Bonds or IDBs), SDG&E proposes to engage in one or more financings with an Authority. It is currently contemplated that such proposed financings would be structured substantially as follows:

(1) An Authority would issue and sell one or more series of its bonds, notes, debentures or other securities Authority Bonds) to a group of underwriters who would ultimately market such Authority Bonds to investors;

(2) Concurrently with the sale and delivery of such Authority Bonds and in consideration for the proceeds of the Authority Bonds, SDG&E would enter into a loan agreement or other security agreement with the Authority, or would enter into an Installment Sale Agreement with the Authority pursuant to which Eligible Facilities would be conveyed to the Authority in consideration for the proceeds of the Authority Bonds, and the Eligible Facilities would be reconveyed to SDG&E in consideration for SDG&E's Debt Securities. The operation and control of such facilities would remain with SDG&E or the project operator at all times;

(3) Concurrently with the sale and delivery of such Authority Bonds, SDG&E would issue and deliver to the Authority, in consideration of the Authority's obligations set forth in (2) above, SDG&E's Debt Securities plus accrued interest (the terms and conditions of such indebtedness to be substantially consistent with the terms and conditions of such Authority Bonds) or would unconditionally guarantee or otherwise secure such Authority's obligations in respect of the Authority Bonds. All rights and title of such Authority in SDG&E's Debt Securities would be assigned to a trustee under an indenture pursuant to which the Authority Bonds would have been issued, as security for the purchasers of the Authority Bonds.

D. <u>Variable-Rate Debt Securities</u>

SDG&E anticipates that from time to time the cost of SDG&E's securities may be reduced by issuing Variable-Rate Debt Securities. A Variable-Rate Debt Security includes, but is not limited to, Debt Securities bearing interest based on the prime rate of banks, bankers acceptances, Eurocommercial paper or some other "referenced" interest rate. A Variable-Rate Debt Security may also be a Debt Security bearing a fixed interest rate but containing terms which create a Debt Security having the effect of a variable interest rate, such as a fixed-rate obligation with the holder having periodic put options (which require SDG&E to repurchase all or a portion of the Debt Securities with a re-marketing obligation by SDG&E of the basic Debt Security) or a Debt Security having a maturity of less than three years.

E. Warrants

SDG&E anticipates that from time to time the cost of SDG&E's Securities may be reduced by attaching warrants to such securities. Each warrant would entitle the holder to purchase an additional bond or debenture with pre-established terms and conditions (Debt Warrants), or to purchase a share of common stock (Stock Warrants). The Debt Security to be issued upon exercise of a Debt Warrant would bear interest at a pre-established rate and would mature at a pre-established time. No additional underwriting fees would be incurred upon exercise of the warrants. Debt Warrants would most likely be exercised if interest rates decline below the pre-established rate and would most likely expire unexercised if rates remain above the pre-established rate. Stock Warrants would most likely be exercised if the common stock price rose above a pre-established price and would most likely expire unexercised if the common stock price remained below the pre-established price. SDG&E believes there are intervals when investors over-value warrants to the advantage of the issuer. The higher the value placed on the warrants, the greater the potential savings to ratepayers. Even if the warrants are exercised, ratepayers could still realize savings because of the premium received from the sale of the warrants.

Interest Rate Caps, Collars, and Swaps

SDG&E requests that the Commission grant SDG&E authority to enter into one or more interest rate payment exchange, cap, collar and/or currency exchange contracts from time to time. SDG&E 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 fixed- and floating-rate Debt Securities.

A. Interest Rate Caps and Collars

In normal market conditions, variable interest rate debt initially carries a lower interest rate than comparable fixed-rate debt. However, there is the possibility that the variable rate could increase so that the average variable rate is higher than the fixed rate.. In order to reduce ratepayers' exposure to interest rate risk, SDG&E may negotiate a maximum rate, usually called a cap. In that case, even if variable rates increase above the cap or ceiling rate, SDG&E 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, SDG&E would pay the floor rate. Such floor and ceiling rates are called interest rate collars because the interest rate fluctuates within a band which is negotiated between SDG&E and the counterparty. Such protection for variable-rate obligations is not unlike protection negotiated by consumers for variable-rate home mortgages.

B. Interest Rate Swap Contracts

From time to time, SDG&E may be able to reduce its borrowing costs by issuing fixed- or floating-rate debt and entering into one or a series of interest rate swap contracts (Swap) to convert fixed interest payments into favorable floating-rate payments or vice versa, or to convert floating-rate payments tied to one index (e.g., the London Interbank Offering Rate or LIBOR) into floating-rate payments tied to another index (e.g., the Federal Reserve Composite Rate for commercial paper). Examples of possible Swap transactions are as follows:

(1) Instead of issuing fixed-rate debt, it may at times be advantageous for SDG&E to issue variable-rate debt and enter into a Swap with a financial institution (Institution) such that the Institution pays SDG&E the Variable Rate Index (such as LIBOR)

and SDG&E pays the Institution a fixed rate. SDG&E's variable-rate financing combined with the Swap results in a fixed-rate financing for SDG&E. If this fixed rate is lower than the rate at which SDG&E could issue fixed-rate debt directly, then the result is a savings for ratepayers.

(2) Instead of issuing floating-rate debt, it may at times be advantageous for SDG&E to issue fixed-rate debt and enter into a Swap with an Institution such that the Institution pays SDG&E a fixed rate and SDG&E pays the Institution a floating rate. SDG&E's fixed-rate financing combined with the Swap results in a floating-rate financing for SDG&E. If this floating rate is lower than the rate at which SDG&E could issue floating-rate debt directly, then the result is a savings.

(3) It may at times be advantageous for SDG&E to borrow at a floating rate based on one index (e.g., LIBOR) and enter into a Swap with an Institution such that the Institution pays SDG&E a LIBOR-based floating rate and SDG&E pays the Institution a floating rate based upon another index (e.g., Commercial Paper-based floating rate). If such a Swap results in a rate which is lower than the rate at which SDG&E could obtain variable-rate financing directly, then the result is a savings for SDG&E's ratepayers.

SDG&E will enter into these Swap contracts only when it is expected that such arrangements will provide an overall cost of money lower than that available through the issuance of alternate Debt Securities. Swaps would be negotiated with a major financial intermediary (i.e. a commercial bank) or directly with a principal seeking the other side of the Swap transaction. The authorization requested in the Application would allow SDG&E to enter into Swap agreements not to exceed the greater of 11% of its total long-term debt at any time or $150,000,000 which may be applied to any of SDG&E's debt.

The terms and conditions of Swaps will be determined by SDG&E according to market conditions at the time a Swap is negotiated.

Features to Enhance Interest Rate Swaps

A. Currency Exchange Contracts

Swaps may be denominated in U.S. dollars or in a foreign currency. If SDG&E enters into a Swap denominated in a foreign currency, SDG&E asserts that any exchange risk will be hedged through one or more forward contracts or through a currency swap.

B. Swap Forward Contracts

Swaps include the option to enter into a Swap. The Swap contract may specify that the exchange of interest payments will commence either immediately or at a future date. For example, if an advantageous Swap transaction were available currently, but SDG&E did not need funds until some future date, SDG&E might enter into the Swap with the exchange of interest payments commencing on that future date.

Restrictions and Limitations on Swaps

Decision (D.) 90-02-051 placed certain restrictions and limitations on SDG&E in relation to Swaps. CACD recommends that the following reporting requirements, restrictions and limitations be placed on SDG&E in relation to Swaps:

(1) Reports

(a) Within fifteen days of entering into a Swap, SDG&E will furnish to CACD a report analyzing the Swap including all costs associated with the Swap in comparison to a projection of "all-in" cost without a Swap.

(b) Within forty-five days of entering into a Swap, SDG&E shall provide CACD with a complete copy of the executed agreement and all associated documentation.

(c) SDG&E shall separately report all interest income and expenses arising from all Swaps in all monthly and annual financial reports to the Commission.

(2) Limit on Rate Recovery

(a) If SDG&E elects to terminate the Swaps before the original maturity or the Swap partner terminates the Swap, all costs associated with the termination shall be subject to review in SDG&E's next cost of capital proceeding.

(3) Limit on Amount of Swaps

(a) Swaps shall not exceed at any time 11% of SDG&E's total long-term debt outstanding or $150,000,000, whichever is larger.

This Commission has considered CACD's recommendations and finding them reasonable will adopt them as stated above. SDG&E is placed on notice by this Decision that the Commission will review the reasonableness of the effective interest rates for Swaps issued by SDG&E in conjunction with SDG&E's next cost of capital proceeding. Any reductions in the effective cost of money resulting from Swap transactions will be passed on to SDG&E's ratepayers in future cost of capital proceedings as a reduction of the cost of money for all debt securities in SDG&E's capital structure.

Exemption From Competitive Bidding

Exhibit A to Commission Resolution No. F-616, dated October 1, 1986, states:

> 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. Certain tax-exempt pollution control bonds and IDBs have terms which are specifically negotiated. Variable interest rate debt securities are normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule.

Moreover, Notes and Variable-Rate Debt Securities are sold through a placement agent on a reasonable efforts basis in a manner analogous to that used for issuing Commercial Paper. Also, Structured Transactions (Swaps entered into in conjunction with the issuance of Debt Securities) are specifically negotiated since the interest rate paid on the Swap and the Debt Security must be established simultaneously. Therefore, SDG&E requests an exemption from the Competitive Bidding Rule with respect to obtaining Loans, issuing Debt Securities or otherwise guaranteeing or securing Authority Bonds in conjunction with financing Eligible Facilities, issuing Variable-Rate Debt Securities, Overseas Indebtedness, Foreign Securities, and Notes and entering into Structured Transactions. However, fixed-rate Bonds and Debentures not part of a structured or similar transaction sold publicly in the domestic market will be offered through competitive bidding.

In addition, to provide added flexibility to take advantage of market opportunities, SDG&E requests that the Commission modify its Competitive Bidding Rule to permit SDG&E to use the following procedures:

(1) To shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters or purchasers or groups thereof (which time period may be as short as a few hours); and

(2) To further modify the Competitive Bidding Rule to permit SDG&E to do the following:

   (a) To accelerate, postpone, or cancel the scheduled date and time for receipt of bids,
   (b) To reject all bids submitted,
   (c) To request the resubmission of bids,
   (d) To reschedule subsequent receipt of bids, and
   (e) To vary the amount, terms and conditions of the Debt Securities submitted for bids.

SDG&E proposes to take all of the above actions without newspaper publication.

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

We place SDG&E on notice that in its next cost of capital proceeding before the Commission, the reasonableness of the interest rate and cost of money resulting from the issuance of SDG&E's Debt Securities will be closely scrutinized and may result in a reduction in the effective cost of debt if it is determined that the cost of money incurred was not prudent. We will also require SDG&E to provide us with a showing of why SDG&E believes that the resulting interest rate and cost of money were advantageous to SDG&E and its ratepayers. We will require this showing within thirty days after issuance of its Debt Securities.

Use of Proceeds

SDG&E proposes to use the proceeds from the issue and sale of its Debt Securities, other than for payment of accrued interest, if any, and after payment or discharge of obligations incurred for expenses incident to their issue and sale, to reimburse SDG&E for money it has actually expended from income or from any other money in its treasury not secured by or obtained from the issue of stocks or stock certificates or other evidences of interest or ownership, or bonds, notes, or other evidences of SDG&E's indebtedness, for the acquisition of property, or for the construction, completion, extension or improvement of SDG&E's facilities exclusive of maintenance of service and replacements and/or for the retirement or the refunding of securities or short-term indebtedness previously issued and upon which SDG&E paid the fees prescribed by PU Code § 1904(b). The amounts so reimbursed will become a part of SDG&E's general treasury funds.

CACD has reviewed SDG&E's proposal for the use of the proceeds and has concluded that the proposed financings are for proper purposes.

Findings of Fact

1. SDG&E, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.

2. The proposed Debt Securities would be for proper purposes.

3. The money, property or labor to be procured, or paid for, by the proposed Debt Securities is reasonably required for the purposes specified in the Application.

4. From time to time during the period of the financings contemplated by the Application, more favorable financing may be available to SDG&E in foreign capital markets than could be obtained in domestic markets.

5. Authorizing SDG&E to determine the precise amount and timing of each financing, the market in and method by which each financing is effected, and the price, 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 in the public interest to exempt from the Commission's Competitive Bidding Rule transactions which relate to obtaining Loans, issuing Debt Securities or otherwise guaranteeing or securing Authority Bonds in conjunction with financing Eligible Facilities, issuing Variable-Rate Debt Securities, Overseas Indebtedness, Foreign Securities and Notes and entering into Structured Transactions.

7. With respect to fixed-rate Bonds and Debentures sold publicly in the domestic market, it is not adverse to the public interest to modify the Commission's competitive bidding requirements to permit SDG&E to shorten the period of time between

the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters, purchasers or groups thereof. SDG&E may accelerate, postpone or cancel the scheduled date and time for receipt of bids, reject all bids submitted, request the resubmission of bids, reschedule subsequent receipt of bids and vary the amount, terms and conditions of the Debt Securities submitted for bids, all of the above to be without newspaper publication.

8. SDG&E has not made a compelling showing that the use of Forwards in conjunction with the issuance of its Debt Securities is warranted and in the best interest of the ratepayers. Forwards should be denied.

9. SDG&E should enter into Loans only when the Loans are designed to result in an overall cost of money lower than that available through the issuance of alternative Debt Securities.

10. 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.

11. It is proper for ratemaking purposes that any losses resulting from currency value fluctuations on the redemption, refunding or conversion of any of its Debt Securities not be passed on to ratepayers in future rate proceedings as an increase in the cost of money for all Debt Securities.

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

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

14. Authorizing SDG&E 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.

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

16. The Commission does not by this decision determine that SDG&E's construction budget is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case or rate base offset proceedings.

17. SDG&E is placed on notice that the Commission does not find that SDG&E's capitalization ratios or the inclusion of short-term debt in its capital structure is necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate case or cost of capital proceedings.

18. SDG&E's proposal to provide security for Authority Bonds is not adverse to the public interest.

19. A limit on Swaps of the greater of 11% or $150,000,000 of SDG&E's total aggregate long-term debt outstanding at any time is reasonable and is not adverse to the public interest.

20. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The Application should be granted to the extent set forth in the order which follows.

3. The proposed Debt Securities are for lawful purposes and the money, property or labor to be obtained, or paid for, by the Debt Securities is required for these purposes. Proceeds from the Debt Securities may not be charged to operating expenses or income.

4. The following order should be effective on the date of signature and the authorization to issue securities should be effective upon payment of the fee set by PU Code § 1904(b) to enable SDG&E to issue its Debt Securities expeditiously.

O R D E R

IT IS ORDERED that:

1. At any time or times after the effective date of this order and on or before December 31, 1993, San Diego Gas & Electric Company (SDG&E) may issue, sell and deliver one or more series of First Mortgage Bonds (Bonds), Debentures, Overseas Indebtedness, Foreign Securities, Medium-Term Notes (Notes), enter into Loans (collectively Debt Securities); and/or guarantee unconditionally or otherwise secure the obligations of one or more political subdivisions (Authorities) with respect to their issuance of debt for facilities qualifying for tax-exempt financing under federal law (Eligible Facilities).

2. Debt Securities may include one or a combination of the features to enhance Debt Securities as set forth in this decision and shall be issued upon terms and conditions substantially consistent with those authorized in this decision. The total aggregate principal amount of issuances of Debt Securities and guarantees which may be made under the Application shall not exceed $425,000,000.

3. SDG&E shall not enter into a contract currently for the issuance of Debt Securities to take place at a future date (Forwards).

4. SDG&E shall enter into Loans only when the Loans are designed to result in an overall cost of money lower than that available through the issuance of alternative Debt Securities.

5. SDG&E may arrange Credit Agreements or other credit facilities as may be necessary for the purpose of issuing the Debt Securities and may modify such credit facilities without further authorization from the Commission;

6. SDG&E may execute and deliver an indenture or one or more supplemental indentures in connection with any issue of Debt Securities hereunder, and sell, lease, assign, mortgage or otherwise dispose of, or encumber, utility property in connection with the issuance and sale of any Debt Securities hereunder.

7. SDG&E may issue, sell and deliver Debt Securities by public offering or private placements.

8. SDG&E's proposed issuance and sale of Debt Securities, or otherwise guaranteeing or securing Authority Bonds in conjunction with financing Eligible Facilities, issuing Variable-Rate Debt Securities, Overseas Indebtedness, Foreign Securities, and Notes and obtaining of Loans and entering into interest rate swap contracts in conjunction with the issuance of Debt Securities (Structured Transactions) are exempted from the requirements of the Commission's Competitive Bidding Rule.

9. Fixed-rate Bonds and Debentures not part of a Structured Transaction sold publicly in the domestic market will be offered though competitive bidding.

10. SDG&E may shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters, purchasers or groups thereof. SDG&E may accelerate, postpone or

cancel the scheduled date and time for receipt of bids, reject all bids submitted, request the resubmission of bids, reschedule subsequent receipt of bids and vary the amount, terms and conditions of the Debt Securities submitted for bids, all of the above to be without newspaper publication.

11. The money, property and labor to be procured or paid for with the net proceeds from the issuance of Debt Securities and guarantees hereunder is reasonably required for the purposes specified in this decision and such proceeds, except as otherwise authorized for accrued interest, are not, in whole or in part, chargeable to operating expenses or to income.

12. SDG&E may utilize at its discretion certain credit enhancements and may enter into certain interest rate caps, collars, and swap contacts (Swaps) as described in this decision. Swaps shall not exceed the greater of $150,000,000 or 11% of SDG&E's total long-term debt outstanding at any time.

13. SDG&E shall notify the Commission Advisory and Compliance Division (CACD), in writing, within thirty days of ascertaining the price, interest rate and other terms pertaining to its issuance of Debt Securities.

14. Within thirty days after awarding the contract for the sale of Debt Securities by competitive bidding, SDG&E shall submit a written report to CACD showing for each bid received, the name of the bidder, the price, the interest rate and the cost of money to SDG&E based on the price and interest rate.

15. If the Debt Securities are sold by means of a public offering, SDG&E shall submit to CACD three copies of its final prospectus pertaining to the Debt Securities within fifteen days after the prospectus is initially distributed.

16. If SDG&E enters into contractual agreements to induce third parties to provide credit enhancements or interest rate protections/conversions in conjunction with the issue and sale of Debt Securities, within thirty days after the issuance and sale of

any series of Debt Securities, SDG&E shall submit to CACD a detailed listing of the costs of the credit enhancements and a report showing why SDG&E believes the cost of money and cost of the credit enhancements were advantageous to SDG&E and its ratepayers.

17. SDG&E, within thirty 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 SDG&E and its ratepayers.

18. Within fifteen days of entering into a Swap, SDG&E shall furnish to CACD a report analyzing the Swap including all costs associated with such a contract in comparison to a projection of "all-in" cost without such a contract.

19. Within forty-five days of entering into a Swap, SDG&E shall provide CACD with a complete copy of the executed agreement and all associated documentation.

20. SDG&E shall separately report all interest income and/or expenses arising from all Swaps in all monthly and annual financial reports to the Commission.

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

22. SDG&E shall submit an original and four copies of the reports required by ordering paragraphs 13 through 21 to CACD with a transmittal letter stating the application and decision numbers. Parties need not be served with copies of the reports unless they request from SDG&E such service in writing. When service is made on parties who request copies of a report, SDG&E 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 of each report to the Docket Office for filing.

23. Any reduction in the effective cost of money resulting from currency value fluctuations 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 the redemption, refunding or conversion of any of its debt securities shall not be passed on to ratepayers as an increase in the cost of money for all debt securities.

24. Any reduction in the effective cost of money resulting from Swaps 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 Swaps shall not be passed on to ratepayers as an increase in the cost of money for all debt securities.

25. SDG&E shall use the net proceeds from the sale of the Debt Securities for the purposes set forth in the Application.

26. The Application is granted as set forth above.

The authority granted by this order to issue Debt Securities will become effective when SDG&E pays $68,500.00, the fee set by Public Utilities Code § 1904(b).

In all other respects, this order is effective today.

Dated MAR 11 1992, 1992 at San Francisco, California.

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

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
MAR 16 1992
By Sue Lee

Rec. # 35257
$68,500.00

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

Neal J. Shulman

NEAL J. SHULMAN, Executive Director

pB