

CACD/SOS

Decision 92-05-061 May 20, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & )  
ELECTRIC COMPANY to issue and sell )  
not more than \$100,000,000 par or )  
stated value of Preferred Stock. )  
(U 902-M) )

**ORIGINAL**

Application 92-01-070  
(Filed January 31, 1992)

O P I N I O N

Summary of Decision

This decision grants San Diego Gas & Electric Company (SDG&E) the authority requested in Application (A.) 92-01-070 (Application) and related proceedings to issue, sell and deliver Preferred Stock (New Stock).

SDG&E requests authority, under Public Utilities (PU) Code §§ 816-818 and 851, to:

1. Issue one or more series in an aggregate amount not to exceed \$100,000,000, par or stated value, of its Preferred Stock (New Stock); and
2. Use the net proceeds therefrom to reimburse SDG&E's treasury for capital expenditures and/or retirement of all or part of SDG&E's then outstanding Debt Securities and Preference Stock.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of February 10, 1992. No protests have been received.

Background

SDG&E, a California corporation, operates as a public utility under the jurisdiction of this Commission. SDG&E 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 twelve months ended December 31, 1991, SDG&E reports that it generated total operating revenues of \$1,695,715,271 and net income of \$208,059,166.

SDG&E's Balance Sheet as of December 31, 1991, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$3,031,799,481
Other Property and Investments	245,419,810
Current Assets	337,153,623
Deferred Charges	<u>133,613,335</u>
Total	\$3,747,986,249
 <u>Liabilities and Equity</u>	
Common Equity	\$1,357,677,822
Preferred/Preference Stock	142,493,000
Long-Term Debt	1,113,867,555
Other Long-Term Liabilities	120,443,032
Current Liabilities	542,637,361
Deferred Credits	<u>470,867,479</u>
Total	\$3,747,986,249

As of December 31, 1991, SDG&E's construction expenditures unreimbursed from the sale of securities amounted to approximately \$841,481,968 as shown in Schedule IV in the Supplemental Financial Data presented to the Commission.

#### Proposed Preferred Stock Issue

The principal amount and the terms and conditions of each series of New Stock will be determined according to market condition at the time of issuance.

SDG&E also requires the issuance of New Stock to maintain an appropriate capital structure which is impacted by the sinking

fund requirements of some outstanding preferreds and the issuance of common stock and debt. The proceeds from the issuance of New Stock may also be used for the refinancing of some of SDG&E's higher cost preferred stock.

For the purpose of providing SDG&E the flexibility deemed necessary to obtain favorable dividend rates on the pricing dates of the New Stock, SDG&E seeks Commission authority to offer, issue and sell the New Stock through one or more negotiated private or public offerings.

SDG&E proposes that the offering or each offering of New Stock will bear such terms and conditions as is appropriate in light of market conditions that may exist at that time or times. The rights, preferences and privileges applicable to each series of New Stock will be fixed by resolution of SDG&E's Board of Directors, and a certificate of determination of preferences (Certificate) which will include the content of such resolutions will be filed with the California Secretary of State.

SDG&E seeks authorization to offer, issue, and sell the New Stock at one or more offerings with the method of sale, price, dividend rate, term liquidation preference and other rights, preferences, privileges and restrictions to be determined prior to each offering in consideration of then prevailing market conditions. SDG&E anticipates that the terms of the New Stock may include, but will not be limited to: (i) restrictive redemption provisions; (ii) dividend rates which may be any combination of fixed, floating tied to an index (such as Treasury rates), or adjustable and which may be set by a market auction procedure; (iii) mandatory sinking funds; (iv) provision for conversion into common stock; and (v) such other provisions as SDG&E shall deem appropriate in connection with its issuance and sale of the New Stock.

Capital Ratios

SDG&E's capital ratios reported as of December 31, 1991, are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	<u>December 31, 1991</u>	<u>Pro Forma</u>
Long-Term Debt	45.0%	45.6%
Short-Term Debt	<u>1.8</u>	<u>1.5</u>
Total Debt	46.8%	47.1%
Preferred/ Preference Stock	5.0	6.6
Common Equity	<u>48.2</u>	<u>46.3</u>
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 (D.92-03-049 dated March 11, 1992, in A.91-10-068).
2. The issuance and sale of up to \$85,600,000 aggregate principal amount of long-term debt, authorized but unissued (D.92-01-002 dated January 2, 1992, in A.89-11-016). On March 10, 1992, SDG&E issued \$60,000,000 of long-term debt under this authorization.
3. The proposed issuance and sale of up to \$100,000,000 of preferred and/or preference stock. Up to \$25,000,000 of this amount will be used for the refinancing of outstanding preferred/preference stock, leaving a balance of \$75,000,000 in new issues (A.92-01-070 filed January 31, 1992.)
- 4.\* The proposed issuance and sale of up to 5,000,000 additional shares (2,500,000 before stock split) of applicant's common stock, without par value, under its amended Common Stock Investment Plan, at an assumed price of \$21.75 per share (\$43.50 before

stock split), estimated to produce net proceeds of \$108,750,000 (D.92-03-095 dated March 31, 1992, in A.91-11-064).

- 5.\* The issuance and sale of up to 381,228 shares (190,614 before stock split) 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 \$8,291,709 at the assumed price of \$21.75 per share (\$43.50 before stock split) (D.83-05-009 dated May 4, 1983, in A.83-03-37).
  - 6.\* The issuance of up to 2,400,376 shares (1,200,188 before stock split) 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 \$6,000,940 at the price of \$2.50 per share (\$5.00 before stock split) (D.86-08-046 dated August 20, 1986, in A.86-07-005).
  - 7.\* The issuance and sale of up to 980,790 shares (490,395 before stock split) 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 \$21,332,183 at the assumed price of \$21.75 per share (\$43.50 before stock split) (D.92805 dated March 12, 1981, in A.60228).
- \* SDG&E is requesting Commission authorization to effect a 2-for-1 split of its common stock. The number of common stock shares and the stock price have been adjusted to reflect the 2-for-1 split.

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 are 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 1992, 1993 and 1994 are approximately \$1,201,000,000. Major classifications of the total budgeted construction are summarized as follows:

<u>Components</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
	(Millions of Dollars)		
Electric Production	\$ 73.9	\$121.4	\$158.2
Electric Transmission	19.4	26.4	35.2
Electric Distribution	172.7	184.5	191.2
Gas	50.8	57.1	65.0
Steam	-0-	-0-	-0-
Common	<u>30.8</u>	<u>25.7</u>	<u>24.6</u>
<b>Total</b>	<b>\$347.6</b>	<b>\$415.1</b>	<b>\$474.2</b>
<b>Less: Allowance for Funds Used During Construction</b>	<u>9.2</u>	<u>12.5</u>	<u>14.0</u>
<b>Funds Used/Required for Construction Expenditures</b>	<b>\$338.4</b>	<b>\$402.6</b>	<b>\$460.2</b>

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 cases or rate base offset proceedings.

#### Cash Requirements Forecasts

SDG&E's cash requirements forecasts for the years 1992, 1993 and 1994 are shown as follows:

<u>Components</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
	(Millions of Dollars)		
Cash Needed for Construction Expenditures	\$338.4	\$402.6	\$460.2
Bond Maturities and Redemptions	0.4	0.6	9.8
Preferred/Preference Stock Retirements	3.0	4.8	3.3
Short-Term Debt Outstanding at the Beginning of Year	<u>33.0</u>	<u>66.0</u>	<u>106.7</u>
Subtotals	\$374.8	\$474.0	\$580.0
Less: Estimated Internal Cash Generation	<u>148.8</u>	<u>196.7</u>	<u>209.6</u>
Additional Funds Required from External Sources	\$226.0	\$277.3	\$370.4

The Commission Advisory and Compliance Division (CACD) has analyzed SDG&E's cash requirements forecast for 1992, 1993 and 1994 provided in SDG&E's Supplemental Data as shown in Schedule III. CACD has concluded that internally generated funds will provide about 39.7% or \$148.8 million of the capital requirements in 1992, 41.5% or \$196.7 million in 1993 and 36.1% or \$209.6 million in 1994. CACD concludes that the proposed sale of SDG&E's New Stock is necessary to help meet forecasted cash requirements which include capital expenditures.

#### General Order 24(b) Modification

SDG&E had over 1,100,000 electric customers and approximately 61,581 common stock shareholders as of December 31, 1991, and is unable to state the total number of its customers or shareholders who will purchase shares of New Stock. Accordingly, SDG&E requests authorization to be relieved of the necessity of complying with the Commission's General Order (GO) 24(b), which requires monthly reporting of receipts and disbursements from the sale of stocks, bonds and other evidences of

indebtedness. In lieu of a monthly report or reports under this General Order, SDG&E proposes to file with the Commission on or before the 25th day of the month following each quarter, a statement for the preceding quarter showing the number of shares of the New Stock purchased; the gross proceeds received; and the expenses incurred by SDG&E in connection with the issue and sale of New Stock.

CACD has reviewed SDG&E's request for exemption of New Stock purchases, and to be consistent with D.83-05-009 which relieved SDG&E from the necessity of complying with GO 24(b) for sales of Stock under the Common Stock Investment Plan, CACD recommends that the Commission relieve SDG&E of the otherwise applicable GO 24(b) requirements for New Stock sales. CACD concurs that SDG&E should file with the Commission, on or before the 25th day of the month following each quarter, a statement for the preceding quarter showing the number of shares of New Stock purchased; the gross proceeds received; and the expenses incurred by SDG&E in connection with the issue and sale of New Stock. We will accept CACD's recommendation.

CACD has reviewed the Application and has concluded that the proposed sale of SDG&E's New Stock 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.

#### Use of Proceeds

SDG&E proposes to use the proceeds from the issue and sale of its New Stock, other than for payment of obligations incurred for expenses incident to their issue and sale, for the acquisition of property, or for the construction, completion, extension or improvement of SDG&E 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.

SDG&E also requires the issuance of New Stock to maintain an appropriate capital structure which is impacted by the sinking fund requirements of some outstanding preferreds and the issuance of common stock and debt. The proceeds from the issuance of New Stock may also be used for the refinancing of some of SDG&E's higher cost preferred stock.

Findings of Fact

1. SDG&E, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. SDG&E has need for external funds as set forth in the Application.
3. The proposed issuance of New Stock would be for proper purposes.
4. The money, property or labor to be procured, or paid for, by the proposed New Stock is reasonably required for the purposes specified in the Application.
5. 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 cases or rate base offset proceedings.
6. SDG&E is placed on notice by this decision that the Commission does not find that SDG&E's capital 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 cases or cost of capital proceedings.
7. 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 New Stock issuance and sale are for lawful purposes and the money, property or labor to be obtained, or paid for, by the New Stock are required for these purposes. Proceeds from the New Stock may not be charged to operating expenses or income.
4. We place SDG&E 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 SDG&E's 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 § 1904.1 to enable SDG&E to proceed expeditiously with the sale of its New Stock.

O R D E R

IT IS ORDERED that:

1. At any time after the effective date of this order and on or prior to December 31, 1997, San Diego Gas & Electric Company (SDG&E) may issue and sell on terms and conditions as set forth substantially in the form as described in Application 92-01-070, not more than 100,000,000 shares of its Preferred Stock (New Stock).

2. SDG&E may use the net proceeds to be received from the New Stock to reimburse SDG&E's treasury for capital expenditures and/or retirement of all or part of SDG&E's then outstanding Debt Securities and Preference Stock.

3. If the New Stock is sold by means of a public offering, SDG&E shall file with the Commission Advisory and Compliance Division three copies of its final prospectus pertaining to the Stock, as soon as practicable after the prospectus is available.

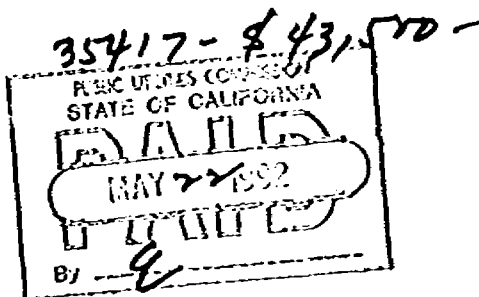
4. SDG&E shall file on or before the 25th day of the month following each quarter a statement for the preceding quarter showing the number of shares of the New Stock purchased; the gross proceeds received; and the expenses incurred by SDG&E in connection with the issue and sale of the New Stock. This filing shall be in lieu of reports required by General Order 24(b).

5. The application is granted as set forth above.

The authority granted by this order to issue and sell Stock will become effective when SDG&E pays \$43,500.00, the fee set by Public Utilities Code § 1904.1. In all other respects, this order is effective today.

Dated May 20, 1992, at San Francisco, California.

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



Commissioner Patricia M. Eckert, being necessarily absent, did not participate.

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

-11-

*[Signature]*  
NEAL J. SHULMAN, Executive Director