

CACD/RAX

Decision 92 10 052 OCT 21 1992

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. \$400,000,000 )  
(2) Obtain an Exemption From the )  
Competitive Bidding Rule to )  
Eliminate the One-Day )  
Notification Requirement to )  
Solicit Bid, (3) Obtain )  
Equity Capital Not to Exceed )  
U.S. \$75,000,000 by the )  
Issuances 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 92-08-018  
(Filed August 10, 1992)

O P I N I O N

Summary of Decision

This decision grants the authority the Southern California Gas Company (SoCal Gas) requested in Application 92-08-018 (Application).

SoCal Gas requests authority, under Public Utilities (PU) Code Sections 701, 816 through 830, and 851, for the following:

1. To obtain debt capital in an aggregate principal amount not to exceed the equivalent of U.S. \$400,000,000 through

- a. the issuance and sale of one or more additional series of SoCal Gas' First Mortgage Bonds, or debentures, promissory notes or other evidences of its indebtedness, including, without limitation, overseas indebtedness, foreign securities and loans, (collectively, the Debt Securities) in one or more financings in domestic or foreign capital markets, and/or
  - b. unconditionally guaranteeing or otherwise securing 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 or any combination thereof (collectively, the "Qualified Facilities"); and
2. 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
3. To obtain an exemption from the Commission's Competitive Bidding Rules (as hereinafter defined) to eliminate the one-day notification requirement to solicit bids; and
4. To obtain equity capital in an aggregate principal amount not to exceed U.S. \$75,000,000 by the issuance and sale of shares of its capital stock designated "Series Preferred Stock" or "Preference Stock" from time to time in one or more public offerings through negotiated underwritings, private placements or other transactions, and substantially concurrent with the sale of its Series Preferred Stock or Preference Stock, to distribute shares of its

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

5. 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 redemption, repurchase or otherwise; and
6. To enter into one or more rate payment exchange, cap, collar and/or currency exchange contracts.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of August 19, 1992. No protests have been received.

#### Background

SoCal Gas, a California corporation and a subsidiary of Pacific Enterprises, operates as a public utility subject to the jurisdiction of this Commission. SoCal Gas engages primarily in the purchase, distribution, transportation and sale of natural gas throughout most of southern California and portions of central California.

For the six months ended June 30, 1992, SoCal Gas reported that it generated total utility operating revenues of \$1,368,663,000 and net utility operating income of \$143,994,000, as indicated in its income statement shown as part of Exhibit C attached to the Application.

Also shown as part of Exhibit C is SoCal Gas' consolidated balance sheet as of June 30, 1992, summarized as follows:

| <u>Assets</u>                       | <u>Amount</u>      |
|-------------------------------------|--------------------|
| Net Utility Plant                   | \$2,945,262,000    |
| Gas Stored Underground - Noncurrent | 69,853,000         |
| Other Property and Investments      | 4,363,000          |
| Current and Accrued Assets          | 445,428,000        |
| Deferred Debits                     | <u>190,955,000</u> |
| Total                               | \$3,655,861,000    |

| <u>Liabilities and Equity</u>   |                  |
|---------------------------------|------------------|
| Common Equity                   | \$ 1,357,009,000 |
| Preferred Stock                 | 196,551,000      |
| Long-Term Debt                  | 1,168,611,000    |
| Current and Accrued Liabilities | 324,348,000      |
| Deferred Credits                | 605,841,000      |
| Operating Reserves              | <u>3,501,000</u> |
| Total                           | \$3,655,861,000  |

Capital Ratios

SoCal Gas' capital ratios, as of December 31, 1991, reported in its Application as Exhibit D are shown below, as recorded and as adjusted to give pro forma effect to financing transactions which have occurred since December 31, 1991, and the issuance of unissued securities previously authorized by the Commission:

|                 | <u>December 31, 1991</u> | <u>Pro Forma</u> |
|-----------------|--------------------------|------------------|
| Long-Term Debt  | 43.0%                    | 43.1%            |
| Preferred Stock | 11.4                     | 10.5             |
| Common Equity   | 45.6                     | 46.4             |
| Total           | 100.0%                   | 100.0%           |

The pro forma capitalization ratios, as set forth above, are shown adjusted for proposed long-term debt and preferred stock issues less maturities, sinking fund payments, and redemption of

long term debt and preferred stock during 1992 and 1993. Common stock equity is adjusted for estimated retained earnings.

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

SoCal Gas' construction budgets for the years 1991, 1992 and 1993 total approximately \$1.1 billion as of August, 1992. Major classifications of the total budgeted construction are summarized as follows:

| <u>Component</u>     | <u>Recorded<br/>1991</u>  | <u>Estimated<br/>1992</u> | <u>Estimated<br/>1993</u> |
|----------------------|---------------------------|---------------------------|---------------------------|
|                      | (in thousands of dollars) |                           |                           |
| <b>Distribution:</b> |                           |                           |                           |
| New Installations    | \$ 83,920                 | 86,500                    | 101,300                   |
| Replacements         | 112,286                   | 101,300                   | 93,500                    |
| Transmission         | 40,732                    | 68,800                    | 55,800                    |
| Underground Storage  | 24,959                    | 31,400                    | 114,000                   |
| Land and Buildings   | 17,040                    | 33,900                    | 23,200                    |
| Equipment            | 42,823                    | 32,000                    | 35,600                    |
| Other                | <u>1,240</u>              | <u>13,100</u>             | <u>13,600</u>             |
| <b>Total</b>         | <b>\$ 323,000</b>         | <b>\$367,000</b>          | <b>\$437,000</b>          |

The Commission Advisory and Compliance Division (CACD) has reviewed SoCal Gas' construction budgets for the years 1991, 1992 and 1993. However, SoCal Gas is placed on notice by this decision that the Commission does not find that its construction program is necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate case or rate base offset proceedings.

Cash Requirements Forecasts

As represented in Exhibit E attached to the Application, SoCal Gas' cash requirements forecast for years 1992 and 1993, estimated as of August, 1992, is summarized as follows:

|                                                                                                      | <u>1992</u>          | <u>1993</u>          |
|------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Funds Used or Required for Construction Expenditures                                                 | \$ 367,000,000       | \$437,000,000        |
| Maturities and Redemption of Long-Term Debt, Including Sinking Fund Requirements and Preferred Stock | 513,369,000          | 95,000,000           |
| Rollover of Short-Term Debt                                                                          | <u>81,878,000</u>    | <u>175,947,000</u>   |
| Subtotal                                                                                             | \$ 962,247,000       | \$707,947,000        |
| Less: Estimated Cash from Internal Sources (Excluding AFUDC)                                         | <u>\$247,300,000</u> | <u>\$435,600,000</u> |
| Additional Funds Required from Outside Sources                                                       | \$714,947,000        | \$272,347,000        |

CACD has analyzed SoCal Gas' cash requirements forecast and has concluded that internally generated funds will provide approximately 26% of the 1992 cash requirements, or \$247,300,000, and approximately 45% of the 1993 cash requirements, or \$435,600,000. CACD concludes that SoCal Gas' proposed sale of securities, as requested in the Application, 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.

Issuance and Sale of Debt Securities

SoCal Gas seeks authority to issue, sell and deliver, in one or more financings, Debt Securities and/or to unconditionally guarantee or otherwise secure the obligations of the Authorities with respect to their issuance of debt in connection with the tax-exempt financings of Qualified Facilities. Total issuance of Debt Securities and/or unconditional guarantees shall not exceed the aggregate principal amount of \$400,000,000.

SoCal Gas requests that the terms and conditions of the proposed Debt Securities, including the price, interest rate and other provisions be determined by market conditions at the time of sale of each series of the Debt Securities.

The Debt Securities may be issued as one or more additional series of SoCal Gas' First Mortgage Bonds or as debentures, promissory notes or other evidences of its indebtedness, including without limitation, Overseas Indebtedness, Foreign Securities and Loans. Each financing will be effected through the use of indentures, bidding and offering documents, purchase agreements, loan agreements, underwriting agreements or other documents and instruments customary for the financing method selected by SoCal Gas.

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

Debt Securities

The types of Debt Securities SoCal Gas may issue are described below.

A. First Mortgage Bonds (Bonds)

The Bonds, as part of the Debt Securities requested in the Application, will be issued in conformity with the provisions of, and secured by, SoCal Gas' First Mortgage Indenture, dated October 1, 1940, as amended by supplemental indentures (Mortgage).

B. Debentures and Notes

The Debt Securities, if in the form of debentures or promissory notes (collectively referred to as Notes), may 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 Notes.

Notes may be sold privately or publicly. A public offering in the United States will require registration under the federal securities laws by the filing of a registration statement that includes a prospectus describing the Notes. An underwriting or agency agreement will govern SoCal Gas' relationships with the firms that distribute Notes to investors. Also, Notes may be sold in domestic or European offerings.

C. Medium-Term Notes

Medium-Term Notes (MTNs) are Notes offered on a continuous or periodic basis pursuant to a shelf registration statement filed with the Securities and Exchange Commission. Maturities generally range from nine months to fifteen years, although they can extend as far as thirty years. They are sold in public or private offerings, with fixed or floating rates, in senior or subordinated form.

D. Loans

SoCal Gas indicates that, from time to time, it may be advantageous to borrow directly from banks, insurance companies or other financial institutions. SoCal Gas intends to confine its



borrowings of this nature to situations designed to result in a lower overall cost of money and/or more advantageous terms and conditions than those available through the issuance of other Debt Securities.

E. Foreign Capital Markets

Debt Securities issued by SoCal Gas in foreign capital markets may be denominated in, or proceeds from their sale received in, U.S. Dollars or in other currencies. To reduce or eliminate the risk of currency fluctuation, SoCal Gas may engage in currency exchanges or purchases and sales and other arrangements.

SoCal Gas intends to confine its financings in foreign capital markets and its financings involving foreign currencies to those periods in which it is reasonably confident that the financings, including any related currency transactions, will provide more favorable terms and conditions than are then available in domestic capital markets or through financings not involving foreign currencies. During other periods, SoCal Gas will confine its financings to domestic capital markets or to those not involving foreign currencies.

F. Tax-Exempt Financings of Certain Qualified Facilities

Additionally, as part of the authorization sought in its Application, SoCal Gas requests authority to issue and sell on behalf of the Authorities one or more series of Debt Securities or, alternatively, to unconditionally guarantee, or otherwise secure, the Authorities' obligations in respect of their issuances of debt in connection with the financing of SoCal Gas' Qualified Facilities.

The proposed financings with the Authorities may be structured as follows:

1. The Authority would issue and sell one or more series of its bonds, notes, debentures or other securities (Authority Bonds) plus accrued interest to a group of underwriters who would ultimately market the Authority

Bonds to the general public. Concurrently with the sale and delivery of the Authority Bonds, SoCal Gas would enter into a loan agreement, or other security agreement, with the Authority.

2. Concurrent with the sale and delivery of the Authority Bonds, SoCal Gas 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.

SoCal Gas indicates that the Authority Bonds could be issued 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, SoCal Gas 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 this Commission in Decision (D.) 38614 dated January 15, 1946 in Case 4761, as amended by D.49941, D.75556 and D.81908 generally require California public utilities to obtain competitive bids for the purchase of their debt securities. The rules also authorize this Commission to grant exemptions from the competitive bidding requirements.

In Resolution F-616, dated October 1, 1986, we set forth our current policy regarding exemption from our Competitive Bidding Rule. We stated that the Competitive Bidding Rule is

mandatory for all domestic debt issues of debentures and first mortgage bonds of \$200,000,000 or less.

All of SoCal Gas' underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds in the principal amount of \$200,000,000 or less effected in domestic capital markets will be competitively bid. The principal amounts and maturities, the redemption, security, subordination and conversion provisions (if any) and the other terms and provisions of the Debt Securities issued in each financing sold by means of competitive bidding will be established by SoCal Gas prior to the particular offering. The price of the Debt Securities and interest rate thereon will be that specified by the qualified bid for the Debt Securities which provides SoCal Gas with the lowest cost of money.

In Resolution F-616, the Commission also modified its prior policy and stated that telephonic competitive bidding is allowable. SoCal Gas, consistent with the modification, requests authority to telephonically invite the submission of bids and to receive bids by telephone from three or more underwriters or groups in lieu of newspaper publication of an invitation for bids and the submission and opening of sealed written bids.

SoCal Gas also requests authority (a) to telephonically accelerate, postpone or cancel the scheduled date and time of the receipt of bids and/or vary the terms and provisions of the securities submitted for bid and (b) if necessary due to market conditions, to reject all bids and to telephonically request resubmission of bids for securities with the same terms and provisions.

B. Exemption for Debt Issues for Which Competitive Bidding is not Viable or Available

In response to the numerous changes which have occurred in the financial markets since the adoption of the

Competitive Bidding Rule, this Commission in Resolution F-616 exempted from this rule all "debt issues for which competitive bidding is not viable or available." SoCal Gas' application states that while Resolution F-616 does not specify the type of financings that come within the exemption, this Commission's "Report on the California Public Utilities Commission's Competitive Bidding Rule for Issuance of Debt Securities" dated September 5, 1986 (Report), contained a discussion of reasons for the exemption and specifically referred to types of debt instruments that should be exempt. The Report states, in relevant part:

A number of . . . debt securities, either by their nature or by established business practices do not lend themselves to competitive bidding. Securities privately placed with specific lenders and bank term loans obviously must be negotiated. Competitive bidding is not presently available in European or Japanese markets . . . Variable interest rate debt is normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule. However, domestic issues of debentures and first-mortgage bonds still lend themselves quite nicely to competitive bidding . . .

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

SoCal Gas believes that at times it may be able to obtain more desirable terms and conditions or a lower cost through debt financings for which competitive bidding is not viable or available. SoCal Gas intends to confine such financings to those which it is reasonably confident it can obtain at more favorable terms and conditions or lower interest rates than are available at the same time through domestic

underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds.

The terms and conditions of Debt Securities issued in each financing sold by means other than competitive bidding will be determined by negotiations between SoCal Gas and the underwriters selected for the proposed offering or the lenders or investors to whom the Debt Securities are to be issued. The amount, terms and conditions of debt financing obtained through commercial bank borrowings will be established by negotiations between SoCal Gas and the lenders.

C. Exemption 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, SoCal Gas seeks authority to eliminate the one-day notice requirement of the Competitive Bidding Rule referred to in Resolution F-616. Through the use of the Securities and Exchange Commission's shelf registration procedures, it is possible to price an offering when market conditions appear most favorable. It is therefore desirable for SoCal Gas 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 for SoCal Gas to be able to make adjustments in the size or term of an offering up to the last moment in response to the current market conditions. Prospective bidders do not require twenty-four hour notification to adequately respond to an invitation for bids or to adjusted terms.

CACD has reviewed SoCal Gas' requests and rationales for further modification of the Competitive Bidding Rule as modified by Resolution F-616. SoCal Gas requests the following modifications be made to the Competitive Bidding Rule:

- A. to telephonically invite the submission of bids, receive bids from three or more underwriters, accelerate, postpone or cancel the scheduled date and time of the receipt of bids and/or vary the terms and provisions of the securities submitted for bid, reject all bids and request resubmission of bids, all without the necessity of newspaper publication;
- B. to effect financings exempt from competitive bidding for those debt issues, other than domestic underwritten public offering of fixed interest rate debentures and First Mortgage Bonds; and
- C. to eliminate the one-day notice requirement with respect to financings to be effected in domestic capital markets through competitively bid underwritten public offerings.

We agree that exemptions from the Competitive Bidding Rule are warranted and that requests (A) and (C) above should be granted, and that the following specific Debt Securities should 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 prior financing decisions for Southern California Edison Company (D.90-04-029, A.89-12-044), San Diego Gas & Electric Company (D.90-02-051, A.89-11-016), and Pacific Gas and Electric Company (D.88-04-063, A.88-02-007), 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 SoCal Gas' exemption from the Competitive Bidding Rule be limited to these specific Debt Securities in the current application. We will accept CACD's recommendation.

We place SoCal Gas on notice that if it chooses to issue and sell the company's Debt Securities by means of negotiated private placements, or negotiated public offerings where approved

by this decision, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized in SoCal Gas' next general rate proceeding. This may result in a disallowance of the interest expense if it is determined that the cost of money incurred was not prudent. We will also require SoCal Gas to provide us with a showing of why it believes that the resulting interest rate and cost of money were advantageous to SoCal Gas and its ratepayers. We will require this showing within 15 days after issuance of SoCal Gas' Debt Securities.

Issuance and Sale of Equity Securities

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

SoCal Gas proposes to obtain equity capital by the issuance and sale of shares of its Series Preferred Stock or Preference Stock, from time to time, through one or more public offerings or private placements in order to maintain its authorized preferred equity ratio. Substantially concurrent with each such sale of Series Preferred Stock or Preference Stock, SoCal Gas proposes to distribute shares of its Common Stock to Pacific Enterprises, for a nominal purchase price or as a stock dividend or otherwise, so that Pacific Enterprises' current percentage ownership of SoCal Gas' voting stock will not be diluted.

Series Preferred Stock or Preference Stock

SoCal Gas states in the application that the proposed sale of shares of its Series Preferred Stock or Preference Stock will be effected through the offering and sale of such shares to the public through either negotiated underwritings or by private placements with institutional or other investors. The sale(s) will be effected at any time, and will result in the issuance of shares of Series Preferred Stock or Preference Stock sufficient to provide SoCal Gas with equity capital in an aggregate principal amount of not to exceed \$75,000,000. SoCal Gas anticipates that it will issue a maximum of not more than 3,000,000 shares of its Series Preferred Stock or Preference Stock.

The precise amount and timing of each offering and sale of one or more series of Series Preferred Stock or Preference Stock, the method of sale, the price, the dividend rate (which may be fixed, adjustable, variable or set by auction or remarketing procedures), dividend period, the liquidation preference and other rights, preferences, privileges and restrictions to be granted to or upon these shares, including redemption, repurchase and sinking fund provisions (if any), have not yet been determined. These will be established prior to the offering and sale by SoCal Gas with due regard for its financial condition and requirements and the prevailing and anticipated market conditions at the time of sale.

The offering and sale will be effected through the use of purchase and underwriting agreements and other documents and instruments customary for issuance of capital stock by the method selected by SoCal Gas.

Common Stock to be Issued to Pacific Enterprises

All of SoCal Gas' 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 SoCal Gas' voting capital stock which would otherwise result from the issuance and sale of the Series Preferred Stock or Preference Stock contemplated by the application, SoCal Gas seeks authority to distribute to Pacific Enterprises, for a nominal purchase price or as a stock dividend or otherwise, shares of SoCal Gas' Common Stock, substantially concurrent with each offering of its Series Preferred Stock or Preference Stock, sufficient to maintain Pacific Enterprises' current percentage of ownership of voting capital stock.

It is expected that in order to maintain shareholders' existing percentage of voting rights, 96 shares of common stock would be distributed to Pacific Enterprises as a stock dividend or otherwise for every four shares of Series Preferred Stock or Preference Stock issued. It is anticipated that application of this ratio would result in the distribution by SoCal Gas to Pacific Enterprises of a maximum of not more than 72 million shares of Common Stock in the aggregate in connection with the Series Preferred or Preference Stock proposed to be issued herein.

#### Currency Exchange Contracts

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

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

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

Rate Payment Exchange Contracts

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

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

R.P. Exchange Contracts were created to take advantage of arbitrage opportunities in the various fixed and floating rate capital markets. Arbitrage opportunities exist because some markets react to change more rapidly than others, because credit perceptions differ from market to market, and because receptivity to specific structures differs from market to market.

CACD has reviewed SoCal Gas' proposal and recommends that the following restrictions and limitations should be placed on SoCal Gas in relation to R.P. Exchange Contracts:

1. Reports

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

2. Limit on Rate Recovery

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

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

- a. SoCal Gas shall not enter into R.P. Exchange Contracts applied to long-term debt financings, unless giving effect thereto, the aggregate notional amount covered by R.P. Exchange Contracts applied to long-term debt financings does not exceed 20% of SoCal Gas' total long-term debt then outstanding.
- b. SoCal Gas shall not enter into R.P. Exchange Contracts applied to Preferred equity financings, unless giving effect thereto, the aggregate notional amount covered by R.P. Exchange Contracts applied to Preferred equity financings does not exceed 40% of SoCal Gas' total Preferred equity then outstanding.

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

Interest Rate Caps and Collars

SoCal Gas requests authority to enter into interest rate cap and collar agreements without the necessity for prior consent from the Commission.

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, SoCal Gas may 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, SoCal Gas 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 SoCal Gas and the counterparty. Such protection for variable-rate obligations is not unlike protection negotiated by consumers for variable-rate home mortgages.

Exemption from the Competitive Bidding Rule for Interest Rate Cap, Collar and Exchange Agreements and long-term-debt financings and Preferred equity financings Issued in Connection with Interest Rate Cap, Collar or Exchange Agreements

SoCal Gas requests that interest rate cap, collar and exchange agreements and Debt Securities other than domestic underwritten public offering of fixed interest rate debentures and First Mortgage Bonds, including without limitation, Medium-Term Notes, be exempt from the Competitive Bidding Rule.

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

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

In its Application, SoCal Gas states that interest rate cap, collar and exchange agreements are opportunistic transactions that may be obtained under more desirable terms and conditions or a lower cost than those obtained under the Competitive Bidding Rules.

CACD has reviewed SoCal Gas' request and believes that interest rate cap, collar and exchange agreements and Debt Securities other than domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds, including without limitation Medium-Term Notes, should be exempted from the rule. CACD recommends that SoCal Gas' request for the exemption, as stated above, be granted and we concur.

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

CACD has reviewed SoCal Gas' application and its proposed sale of Debt Securities for the purposes set forth in the application. CACD has concluded that SoCal Gas' proposed financings are necessary to provide funds for the purposes set forth in the application. Furthermore, CACD has no objection to the proposed financings.

Findings of Fact

1. SoCal Gas, a California corporation, is a public utility under the jurisdiction of this Commission.
2. SoCal Gas needs external funds for the purposes set forth in the application.
3. The proposed Debt Securities and Series Preferred Stock or Preference Stock are for proper purposes.
4. The proposed agreement requiring SoCal Gas to provide security for the Authority financings is not adverse to the public interest.
5. From time to time during the period of the financings contemplated by the application, more favorable financing may be available to SoCal Gas in foreign capital markets than in domestic markets.
6. The number of shares outstanding, the total par or book value of these shares and the dividends paid do not determine the utility's allowable return on plant investment. This authorization is not a finding of the value of SoCal Gas' stock or property, nor does it indicate the amounts to be included in rate setting procedures.
7. It is in the public interest to authorize SoCal Gas to determine the precise amount and timing of each financing, the market in and method by which each financing is effected and the terms and provisions, price of and interest rate of the Debt Securities issued in each financing, within the constraints set forth in the application.
8. Transactions which relate to obtaining Loans, issuing variable-rate Debt Securities and issuing Overseas Indebtedness, Foreign Securities, and Notes will not be subject to the Commission's Competitive Bidding Rule. With respect to fixed-rate Bonds and Debentures sold publicly in the domestic market, it is in the public interest to authorize a deviation from the Commission's competitive bidding requirements to permit SoCal Gas

to telephonically invite the submission of bids and to receive bids by telephone from three or more underwriters or groups thereof, in lieu of newspaper publication of an invitation for bids and the submission and opening of sealed written bids; to telephonically accelerate, postpone or cancel the scheduled date and time of the receipt of bids and/or vary the terms and provisions of the securities submitted for bid; and if necessary due to market conditions, to reject all bids and to telephonically request resubmission of bids for securities with the same terms and provisions.

9. This decision does not determine that SoCal Gas' construction budget is necessary or reasonable for ratemaking purposes; these issues are normally tested in general rate or rate base offset proceedings.

10. This decision does not find that SoCal Gas' capitalization ratios or the inclusion of short-term debt in its capitalization structure is necessary or reasonable for ratemaking purposes; these issues are normally tested in general rate or cost of capital proceedings.

11. Authorizing SoCal Gas to mortgage or otherwise encumber its properties as security for its Debt Securities or other evidences of indebtedness is not adverse to the public interest.

12. 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.

13. The use of Rate Payment and Currency Exchange contracts is reasonable within the limitations proposed herein.

14. 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 and Series Preferred Stock or Preference Stock are for lawful purposes and the money, property or labor to be obtained thereby is required for these purposes. Proceeds from the issuance and sale of the securities may not be charged to operating expenses or income.

O R D E R

IT IS ORDERED that:

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

- a. Obtain debt capital in an aggregate principal amount not to exceed the equivalent of U.S. \$400,000,000 through
  - (1) the issuance and sale of one or more additional series of SoCal Gas' First Mortgage Bonds, or debentures, promissory notes or other evidences of its indebtedness, including, without limitation, overseas indebtedness, foreign securities and loans, (collectively, the "Debt Securities") in one or more financings in domestic or foreign capital markets, and/or
  - (2) unconditionally guaranteeing or otherwise securing 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 or any combination thereof (collectively, the "Qualified Facilities").

- b. 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;
- c. Deviate from the one-day notice requirement, specified in the Commission's Competitive Bidding Rule;
- d. Obtain equity capital in an aggregate principal amount not to exceed \$75,000,000 by the issuance and sale of shares of its capital stock designated "Series Preferred Stock" or "Preference Stock" from time to time in one or more public offerings through negotiated underwritings, private placements or other transactions, and substantially concurrent with the sale of its Series Preferred Stock or Preference Stock, to distribute shares of its Common Stock to the shareholder of its Common Stock, Pacific Enterprises, for a nominal purchase price or as a stock dividend or otherwise sufficient to maintain Pacific Enterprises' current percentage ownership of SoCal Gas' voting capital stock;
- e. 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 redemption, repurchase or otherwise; and
- f. Enter into one or more rate payment exchange, cap, collar and/or currency exchange contracts consistent with the limitations and restrictions provided herein.

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

3. Within 15 days of entering into a Rate Payment (R.P.) Exchange Contract, SoCal Gas shall furnish to the Commission Advisory and Compliance Division (CACD) a report analyzing the R.P. Exchange Contract including all costs associated with the R.P. Exchange Contract in comparison to a projection of "all-in cost" without an R.P. Exchange Contract.

4. Within 45 days of entering into an R.P. Exchange Contract, SoCal Gas shall provide CACD with a complete copy of the executed agreement and all associated documentation.

5. SoCal Gas shall separately report all interest income and/or expenses arising from all R.P. Exchange Contracts in all monthly and annual financial reports to the Commission.

6. SoCal Gas shall not enter into R.P. Exchange Contracts applied to long-term debt financings, unless giving effect thereto, the aggregate notional amount covered by R.P. Exchange Contracts applied to long-term debt financings does not exceed 20% of SoCal Gas' total long-term debt then outstanding.

7. SoCal Gas shall not enter into R.P. Exchange Contracts applied to Preferred equity financings, unless giving effect thereto, the aggregate notional amount covered by R.P. Exchange Contracts applied to Preferred equity financings does not exceed 40% of SoCal Gas' total Preferred equity then outstanding.

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

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

10. Within 15 days after the issuance and sale of its Debt Securities by competitive bidding, SoCal Gas shall file a written report with the Commission showing for each bid received, the name of the bidder, the price, the interest rate and the cost of money to SoCal Gas based on the price and interest rate.

11. Within 15 days after the issuance and sale of the Debt Securities by means other than competitive bidding, SoCal Gas shall file with the Commission a report showing why the resulting rate and cost of money to the company were advantageous to SoCal Gas and its ratepayers.

12. SoCal Gas shall file copies of all R.P. Exchange Contracts and other Exchange Contract-related reports as described in this decision.

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

14. SoCal Gas shall submit an original and four copies of the reports required by ordering paragraphs 3 and 4 and 8 through 12 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 such service in writing. When service is made on parties who request copies of the report, SoCal Gas shall attach to its report a certificate showing service by mail upon all those requesting copies. The Director of CACD shall send the original and one copy to the Docket Office for filing.

15. SoCal Gas shall use the net proceeds from the sale of the Debt Securities and the Series Preferred Stock or Preference Stock for the purposes set forth in the application.

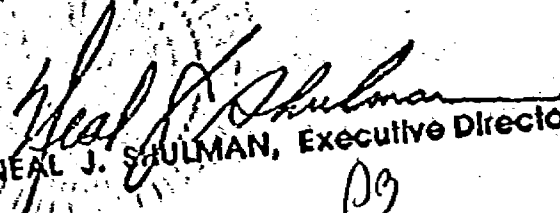
16. The authority granted by this order will become effective when SoCal Gas pays \$32,245.00, the fee set by PU Code Section 1904(b).

17. The application is granted as set forth above. This order is effective today.

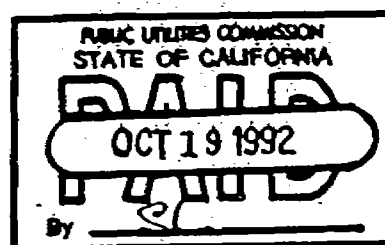
Dated OCT 21 1992, at San Francisco, California.

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

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

  
NEAL J. SHULMAN, Executive Director

DS



Rec # 35811  
10-19-92  
\$ 32,245<sup>00</sup>