RR/KLH/TCG/WPSC 17

Decision 82 03 025 MAR 2 - 1982 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA GAS COMPANY for Authorizations to Obtain Additional Debt Capital Not to Exceed $110 Million.

Application 61165
(Filed December 31, 1981)

OPINION

Southern California Gas Company (SoCal) requests authority, under Public Utilities (PU) Code Sections 816 through 818, 830, and 851, for the following:

1. To issue and sell up to $110,000,000 aggregate principal amount of its First Mortgage Bonds, debentures, promissory notes, and/or other evidences of indebtedness (referred to collectively as Debt Securities), in one or more financings in either domestic or foreign capital markets (Eurodollars) by means of competitive bidding, negotiated public offerings, or negotiated private placements, on or before December 31, 1982;

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

3. To guarantee debt securities issued and sold by SoCal's subsidiaries or affiliates in financings effected for SoCal in foreign markets;

4. To determine precise amount and timing of each financing; the market by which each is effected; the method by which each is effected; and the terms and provisions of SoCal's Debt Securities;

5. To be exempted from the Commission's competitive bidding requirements those financings effected through negotiated public offerings or negotiated private placements;

6. To shorten to one day the period of time between the public invitation for bids and the opening of bids for SoCal's Debt Securities effected through competitive bidding in domestic capital markets; and

7. To further modify the Commission's competitive bidding requirements rule to permit SoCal to accelerate, postpone, or cancel its scheduled offering dates, to reject all bids submitted, request the resubmission of bids, and to vary the amount and terms of the Debt Securities submitted for bids without republishing an invitation for bids.

Summary of Decision

This decision grants SoCal the authority requested in the application to issue and sell Debt Securities in either the domestic or foreign market, by either competitive bidding, negotiated public offerings, or private placements. It also requires SoCal to file a report showing why the interest rate and cost of money resulting from a negotiated public offering or a private placement was the most advantageous to the company and its ratepayers.

Notice of the filing of the application appeared on the Commission's Daily Calendar of January 6, 1982. No protests have been received.

SoCal, a California corporation (a subsidiary of Pacific Lighting Corporation), is a public utility under the jurisdiction of this Commission. SoCal is principally engaged in purchasing, distributing, and selling natural gas to customers throughout most of southern California and portions of central California.

For the calendar year 1981, SoCal reports, in its Statement of Income attached to the application as part of Exhibit D, that it generated total operating revenues of $3,227,615,606 and net income of $97,160,259.

SoCal's Balance Sheet as of November 30, 1981 is attached to the application as part of Exhibit B and is summarized as follows:

Assets	Amount
Net Utility Plant	$1,136,871,000
Other Property and Investments	4,911,000
Current and Accrued Assets	421,123,000
Deferred Debits	92,264,000
Total	$1,655,169,000
Liabilities and Equity	
Common Equity	$ 532,339,000
Preferred Stock	21,551,000
Long-Term Debt	548,637,000
Current and Accrued Liabilities	488,980,000
Deferred Credits and Reserves	63,662,000
Total	$1,655,169,000

SoCal's capital ratios as of November 30, 1981 adjusted to give pro forma effect to:

1. The proposed issuance of $110,000,000 aggregate principal amount of its Debt Securities,

2. The retirement of $10,165,000 of SoCal's 3-1/2% First Mortgage Bonds, due April 1, 1982 and $7,739,000 of Southern Counties Gas Company's 4-5/8% First Mortgage Bonds due March 1, 1982, and

3. The $90,000,000 capital contribution by SoCal's parent, Pacific Lighting Corporation, during 1982

are as follows:

	November 30, 1981	Pro Forma
First Mortgage Bonds	49.7%	49.8%
Other Long-Term Debt	.1	.1
Total Debt	49.8	49.9
Common Equity	50.2	50.1
Total	100.0%	100.0%

SoCal is engaged in an extensive construction program and estimates that gross expenditures required for its proposed construction program for calendar years 1982 and 1983 will be about $537,138,000. A classification of the budgeted construction for 1982 and 1983 is as follows:

Description	1982	1983
Services to New Customers	$ 90,235,000	$120,265,000
Betterments and Retirements	94,667,000	130,333,000
Underground Storage	17,178,000	11,674,000
Land, Construction, and Alterations of Structures	16,506,000	43,190,000
Furniture, Equipment and Tools	5,541,000	7,549,000
Total	$224,127,000	$313,011,000

SoCal reports that as of December 31, 1982 it expects to have unreimbursed construction expenditures of $294,804,941 available for the issuance of additional securities. SoCal estimates that internally generated funds will provide approximately 26.8% of those in 1982 and 55.6% of those in 1983.

The Commission's Revenue Requirements Division has reviewed Edison's 1982 and 1983 construction programs and has concluded the estimated construction expenditures are necessary. The Division has no objections to the proposed security issue(s) specified in the application. The Division reserves the right to reconsider the reasonableness of any specific construction expeditures in future rate proceedings.

SoCal proposes to obtain additional debt capital up to $110,000,000 aggregate principal amount through one or more financings in domestic or foreign capital markets on or before December 31, 1982.

The precise amount and timing of each financing, the market in which each is effected, the method by which each is effected, and the terms and conditions of the securities issued in each financing would be determined by SoCal, within the constraints set forth below, with due regard for its financial requirements and the prevailing and anticipated market conditions at the time of sale. SoCal believes the financial flexibility provided by the authorizations requested from this Commission would enable it to respond rapidly to changing market conditions and to obtain long-term financing sufficient to meet its requirements through 1982 upon the most favorable available terms.

Domestic Financings

SoCal proposed debt financings in domestic capital markets would be effected through the issuance of its Debt Securities to the public through competitive bidding, negotiated public offerings, or to institutions, other lenders, or investors through negotiated private placements. The Debt Securities issued in each domestic financing would be direct obligations of SoCal issued as one or more additional series of SoCal's Debt Securities. Each financing would be effected through the use of indentures, bidding and offering documents, purchase, loan and underwriting agreements, and other documents and instruments customary for domestic debt financing by the method selected by SoCal.

The principal amounts and maturities and the period of redemption, if any, (including sinking fund provisions and period of nonrefundability), security, subordination and conversion provisions, and the other terms and provisions of the Debt Securities (issued in each financing effected through competitive bidding) would be established by SoCal prior to the public offering.

The price of the securities and their interest rate would be that specified by the qualified bid for the securities which provides SoCal with the lowest cost of money.

The terms and provisions of the Debt Securities issued in each financing effected through negotiated underwriting and the price and interest rate (which may vary or be adjusted periodically) would be determined prior to the offering by negotiations between SoCal and underwriters selected for the offering. The terms and provisions of the Debt Securities issued in each financing effected through negotiated private placements and the price and interest rate would be determined by negotiations between SoCal and lenders or investors to which the securities are to be issued.

Foreign Financings

SoCal's proposed debt financings in foreign capital markets would be effected directly through the issuance of its Debt Securities or indirectly through the issuance of debt securities of a subsidiary or an affiliate. The securities would be issued through negotiated public offerings or to institutions, other lenders, or investors through negotiated private placements.

The Debt Securities issued in each financing in foreign capital markets may be direct obligations of SoCal issued as one or more additional series of SoCal's currently outstanding Debt Securities. However, in order to assure that United States taxes will not be withheld from payments on Debt Securities held by foreign lenders or investors, SoCal's financings in foreign capital markets may be effected indirectly through subsidiaries or affiliates incorporated in a jurisdiction with which the United States has favorable tax treaties. The foreign subsidiary or affiliate would issue debt capital. These securities may be guaranteed by SoCal and the net proceeds of the issue would be loaned to SoCal in return for SoCal's issuance to the subsidiary or affiliate one or more additional series of SoCal's currently outstanding Debt Securities. The securities issued by SoCal may also be pledged as security for the debt capital issued by the subsidiary or affiliate.

Each of the subsidiaries or affiliates would be capitalized with an equity contribution by SoCal in an amount sufficient to obtain assurances that withholding of United States taxes would not be required in respect of the debt capital that is issued in this manner. The equity capitalization may be invested by the subsidiary or affiliate in interest-bearing bank deposits, investments, or loaned to SoCal or its other affiliates. It may be funded by a capital contribution to SoCal by its corporate parent which may borrow the amount of the contribution from one or more banks or other lenders. As a result, a cost may be incurred on the contribution equal to the difference between the interest cost of the borrowings and interest earned on the deposits or other investments.

Each financing would be effected through the use of indentures, offering documents, purchase, loan and underwriting agreements, other documents, and instruments customary for foreign debt financings by the method selected by SoCal. The principal amounts and maturity dates, and the rights and terms of redemption, if any (including sinking fund provisions and period of nonrefundability), security, subordination, conversion, and guarantee provisions of the Debt Securities issued in each financing and the price and interest rate (which may vary or be adjusted periodically) would be determined by negotiations among SoCal, SoCal's subsidiary or affiliate (if any), and the underwriters selected for the proposed offering, the lenders, or investors to which the securities are to be issued.

Competitive Bidding Requirements

Rules adopted by this Commission in Decision (D.) 38164 dated January 15, 1946 in Case 4751, as amended in 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 authorize this Commission to grant exemptions from the competitive bidding requirements. The Commission has done so from time to time upon a showing of compelling circumstances.

In D.91984 dated July 2, 1980 for the San Diego Gas & Electric Company in Application 59633, we discussed the granting of exemptions from the competitive bidding rule, and we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule. We served notice that assertions regarding the volatility of the market, the flexibility provided by a negotiated sale, and the importance of maximizing the effectiveness of the underwriting group will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

SoCal believes that compelling circumstances exist and requests exemption from this Commission's competitive bidding requirements for its proposed financings. SoCal believes that the financial flexibility that would be afforded by this exemption would enable it to meet its financial requirements on the most favorable terms available.

Domestic Financings

Competitive bidding markets for public utility securities are well-established in the United States. SoCal urges, however, that from time to time, financing effected through negotiated public offerings or negotiated private placements may provide public utilities with more favorable terms and conditions for their debt securities than financing effected through competitive bidding.

SoCal believes these conditions may exist from time to time during the period of the financings contemplated by this application and believes compelling reasons exist for permitting public utilities to finance through negotiated public offerings and negotiated private placements.

SoCal points out that financing effected through competitive bidding requires that a fixed date and terms for a public offering be established. Variations in the date and terms, so established, are difficult; and flexibility, to respond to rapidly changing market conditions, is lost. In contrast, a public offering, through negotiated underwriting, can be more readily accelerated in order to take advantage of favorable market conditions or postponed to avoid adverse market conditions and changes in the terms and conditions of the offering that may be rapidly effected. SoCal urges that this flexibility to vary the timing, terms, and conditions of a financing is particularly important during periods of market volatility. These may be crucial to a successful financing.

Financing through competitive bidding also requires a fixed interest rate for the Debt Securities offered in order to provide measurable objective evidence of the bid providing the lowest cost of money. In contrast, a public offering through negotiated underwriting can provide for a variable or adjustable interest rate that changes over time or in relation to changes in the interest rate on other debt capital or in economic indices. SoCal urges that during periods of high or volatile interest rates, a variable interest rate may be less costly over the life of the Debt Securities than a fixed interest rate. The ability to provide a variable interest rate may be crucial to a successful financing.

SoCal points out that financing through negotiated underwriting may help ensure a successful offering through the preselling efforts of the underwriters. In a negotiated underwriting, after the registration statement for the offering has been filed, the underwriters solicit indications of interest from institutions and other potential investors. These preselling efforts are likely to be less extensive in competitive bidding because of prospective bidders' uncertainty whether or not their bid will be successful.

Moreover, in competitive bidding, the investment banking community forms into several groups to bid for an offering. As a result, potential sellers of the offering are fragmented and many of those best able to distribute the offering may be members of an unsuccessful bidding group. In contrast, in a negotiated underwriting, the managing underwriter has the entire investment banking community from which to choose in forming an underwriting group and selling syndicate. It is able to assemble the best group for the distribution of the offering and allocate the sales effort to those firms best able to market the offering.

SoCal urges that financing through negotiated private transactions provides greater flexibility to vary the timing and terms of a financing than does financing through negotiated underwriting. This results from the absence of registration proceedings necessary for a public offering and, in many cases, the absence of rating agency proceedings. The absence of these proceedings results in substantial savings in the costs of the financing. Moreover, because of the ability to establish terms and conditions for the financing, including a variable interest rate, that are tailored to the specific requirements of a few investors or lenders as opposed to those of the public, SoCal urges that it may be possible to obtain more favorable terms and conditions than could be obtained in a public offering either through competitive bidding or negotiated underwriting.

Foreign Financings

SoCal points out that competitive bidding markets do not exist for financing by domestic corporations in foreign capital markets. The established procedures for these financings require negotiated public offerings or negotiated private placements. Accordingly, in the absence of an exemption from this Commission's competitive bidding requirements, SoCal would be precluded from financing in foreign capital markets.

SoCal believes that compelling reasons exist for permitting access by public utilities to foreign capital markets. Because of the different economic and political forces affecting domestic and foreign capital markets, interest rates, and other terms and conditions of financing may, from time to time, be more favorable in one market than in the other. Thus, corporations which have the flexibility to obtain financing in both markets may, through judicious market selection, obtain more favorable financing than those which are confined to a single market.

Request for Exemption from Competitive Bidding

SoCal believes the flexibility to determine the market and method for its proposed financings (within the constraints set forth in its application) will enable it to respond to rapidly changing market conditions and to obtain its necessary financing at the lowest overall cost. Accordingly, it requests exemption from the Commission's competitive bidding rule for its proposed financings in foreign capital markets and for its proposed financings in domestic capital markets through negotiated public offerings and negotiated private placements.

This Commission has, from time to time, confirmed the continuing validity of its competitive bidding rule. We are persuaded that an inflexible adherence to these requirements may not be in the public interest, particularly during periods of high interest rates and volatile market conditions for public utility securities.

SoCal has recognized that competitive bidding is the preferred method of public utility debt financing. Accordingly, in its application, SoCal has advised us that it intends to confine its foreign financings and its domestic financings through negotiated public offerings and negotiated private placements to those periods in which it is reasonably confident that it can obtain financing upon more favorable terms and conditions than are available through competitive bidding. We do not believe that it should be precluded from doing so. Accordingly, we will grant SoCal's request to obtain financing through competitive bidding, negotiated public offerings, or negotiated private placements.

In order to provide additional flexibility for financings in domestic capital markets through competitive bidding, SoCal has also requested that this Commission modify its competitive bidding rule to shorten to as little as one day the period between the publication of an invitation for bids and the scheduled date for the opening of bids. SoCal requests that this Commission authorize it to accelerate, postpone, or cancel the date for the opening of bids; to reject all bids submitted; request the resubmission of bids; reschedule subsequent opening of bids; and to vary the amount, terms, and conditions of the securities submitted for bids without republishing an invitation for bids.

Because the proposed Debt Securities may be sold on terms which will be negotiated after issuance of this decision and because of the Revenue Requirements Division's conclusion that the Debt Securities will be sold at a cost as low, if not lower, than would prevail if the Debt Securities were to be sold at competitive bidding, we are of the opinion that applying the Commission's competitive bidding requirements and conditions set forth in D.91984 in this proceeding may not be in the best interests of SoCal or its ratepayers. These requirements and conditions may not operate to ensure that SoCal's sale of Debt Securities would be at the most favorable cost of money.

SoCal is put on notice that in its next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized and may result in a disallowance of interest expense if it is determined that the cost of money incurred was not the most prudent.

The Commission has urged utilities to seek new and innovative forms of financing. The Revenue Requirements Division concurs in SoCal's belief that the ability to finance in foreign capital markets may enable it to obtain more favorable financing than may be available to it in domestic capital markets. The Division believes that utilities should not be foreclosed from this market. Accordingly, the Division concludes that SoCal's request for exemption from our competitive bidding requirements for financing effected in foreign capital markets should be granted.

If SoCal issues and sells its Debt Securities by means of negotiated public offerings or negotiated private placements in the domestic or European market, we will require SoCal to provide us with a showing of why it believes that the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers. We will require this showing within a reasonable period after the issuance and sale of the proposed Debt Securities.

Use of Proceeds

SoCal proposes to use the net proceeds from its proposed financings (other than accrued interest which will be used for general corporate purposes) to reimburse its treasury for funds expended or to be expended for the following purposes:

Retirement of Bonds through Sinking Fund	$ 18,119,000
Retirement of Bonds at Maturity	17,904,000
Reimbursement of Construction Expenditures	73,977,000
	$110,000,000

The amounts so reimbursed will become a part of SoCal's general treasury funds and may be used to reduce the short-term indebtedness.

The Commission's Revenue Requirements Division has reviewed SoCal's application and its proposed construction budget. The Division has concluded that SoCal's proposed financings are necessary to provide funds for the purposes set forth in the application.

The Commission's Revenue Requirements Division has analyzed SoCal's cash requirements forecast for 1982 and 1983, attached to the application as part of Exhibit D and to a letter dated February 11, 1982 to the Commission, and has determined that internally generated funds will provide about 26.8% of the capital expenditures estimated for 1982 and about 55.6% of those in 1983. The Division has concluded that the proposed issuance of SoCal's Debt Securities will be necessary to help SoCal to meet its forecasted cash requirements.

Findings of Fact

1. SoCal, a California corporation, operates as a public utility under the jurisdiction of this Commission.

2. SoCal has need for external funds for the purposes set forth in the application.

3. SoCal's proposed Debt Securities or other evidences of indebtedness are for proper purposes.

4. From time to time during the period of the financings contemplated by SoCal's application, more favorable financing may be available to SoCal in foreign capital markets than could be obtained in domestic markets.

5. From time to time during the period of the financings contemplated by SoCal's application, more favorable domestic financing may be available to SoCal through negotiated public offering and/or negotiated private placement than could be obtained through competitive bidding.

6. Authorizing SoCal to determine the precise amount and timing of each financing; the market in which each is effected; the method by which each is effected; the terms and conditions of the Debt Securities or other evidences of indebtedness issued and sold by its subsidiaries or affiliates within the constraints set forth in the application is in the public interest.

7. Exempting SoCal's debt financings in foreign capital markets and its financings effected in negotiated public offerings and/or negotiated private placements in domestic capital markets from this Commission's competitive bidding requirements is in the public interest.

8. Shortening to one day the period of time between the public invitation for bids and the opening of bids for SoCal's debt financings effected through competitive bidding in domestic capital markets is in the public interest.

9. Authorizing SoCal to accelerate, postpone, or cancel the scheduled date of the offering under competitive bidding, to reject all bids submitted, to request the resubmission of bids, and to reschedule subsequent openings of bids, and to vary the amount and terms of the securities submitted for bid, all without republishing an invitation for bids, is in the public interest.

10. Authorizing SoCal 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.

11. 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.

12. 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.

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it is required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable SoCal to issue its Debt Securities expeditiously.

O R D E R

1. Southern California Gas Company (SoCal) may issue and sell one or more series of its First Mortgage Bonds, debentures, notes, or other evidences of indebtedness (Debt Securities) in an aggregate principal amount of up to $110,000,000, at any time or from time to time, on or before December 31, 1982 in either or both domestic or foreign capital markets in one or more financings by means of competitive bidding, negotiated public offerings, or negotiated private placements.

2. SoCal may mortgage or otherwise encumber its properties as security for its Debt Securities.

3. SoCal may guarantee Debt Securities or other evidences of indebtedness issued by subsidiaries or affiliates of SoCal in the financings effected for SoCal in foreign capital markets.

4. SoCal is authorized to determine the precise amount and timing of each financing, the market in which each is effected, the method by which each is effected, and the terms and provisions of additional Debt Securities or other evidences of its indebtedness in the manner and subject to the limitations set forth in its application.

5. SoCal's financings through negotiated public offering and negotiated private placement are exempted from the Commission's competitive bidding requirements.

6. SoCal's financings through competitive bidding may be effected through the publication of an invitation for bids not less than one day prior to the scheduled opening of bids.

7. SoCal may accelerate, postpone, cancel the scheduled date of invitation for bids, reject all bids submitted, request the resubmission of bids, reschedule subsequent openings of bids, and vary the amount and terms of the securities submitted for bids, all without republishing an invitation for bids.

8. Promptly after awarding the contract for the sale of Debt Securities by competitive bidding, SoCal 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 the company based on the price and interest rate.

9. If the Debt Securities are sold by competitive bidding or by a negotiated public offerings, as soon as available, SoCal shall file with the Commission three copies of its final prospectus pertaining to its Debt Securities.

10. Within 30 days after the issuance and sale of any series of Debt Securities by means of negotiated public offerings or by a negotiated private placements, on either the domestic or foreign

markets, SoCal shall file with the Commission a report showing why the resulting rate and cost of money to the company were the most advantageous to the company and its ratepayers.

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

12. The authority granted by this order to issue Debt Securities or other evidences of indebtedness will become effective when SoCal pays $52,048, the fee set by PU Code Section 1904(b) after taking credit for the retirement of $10,165,000 principal amount of 3-1/2% First Mortgage Bonds, due April 1, 1982 and $7,739.000 principal amount of Southern Counties Gas Company's 4-5/8% First Mortgage Bonds, due March 1, 1982.

Dated MAR 2 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. CREW
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
MAR 4 1982
$52,048.00
By

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

Joseph E. Bodovitz, Executive Director