RR/KLH/AV/WPSC

Decision 83 06 093 JUN 29 1983 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 $90 Million.	Application 83-05-42 (Filed May 19, 1983)

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 $90,000,000 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 domestic capital markets by means of competitive bidding, "shelf" sales after bidding or negotiated private transactions, or in foreign capital markets by means of negotiated underwritings or negotiated private transactions, on or before December 31, 1983;

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 the precise amount and timing of each financing; the market in which each is sold; the method by which each is sold; the terms and provisions, price, and interest rate of SoCal's Debt Securities;

5. To be exempted from the Commission's competitive bidding requirements those financings sold in domestic markets through "shelf" sales after bidding or negotiated private transactions and in foreign markets through negotiated underwritings or negotiated private transactions;

6. To shorten to one day the period of time between the publication of an invitation for competitive bids and the opening of such bids for SoCal's Debt Securities sold 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 opening date, to reject all bids submitted, request the resubmission of bids, reschedule subsequent openings of bids, and to vary the amount and terms of the Debt Securities submitted for bid without republishing an invitation for bids.

<u>Summary of Decision</u>

This decision grants SoCal the authority requested in the application to issue and sell Debt Securities in domestic markets by competitive bidding, "shelf" sales after bidding or negotiated private transactions, and in foreign markets by negotiated underwritings or negotiated private transactions. It also requires SoCal to file a report showing why the cost of money resulting from a negotiated private transactions in domestic markets or a negotiated underwriting or negotiated private transactions in foreign markets 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 May 23, 1983. No protests have been received.

SoCal, a California corporation (a subsidiary of Pacific Lighting Corporation), operates as a public utility under the jurisdiction of this Commission. SoCal purchases, distributes, and sells natural gas to customers throughout most of southern California and portions of central California.

For the 12 months ended March 31, 1983, SoCal reports, in Exhibit D attached to the application, that it generated total operating revenues of $4,409,075,005 and net income of $78,559,625.

Also shown as part of Exhibit B is SoCal's Balance Sheet as of March 31, 1983 sumarized as follows:

Assets	Amount
Net Utility Plant	$1,246,115,000
Other Property and Investments-Net	23,909,000
Current and Accrued Assets	541,504,000
Deferred Debits	212,918,000
Total	$2,024,446,000
Liabilities and Equity	
Common Equity	$ 605,848,000
Preferred Stock	21,551,000
Long-Term Debt	637,163,000
Current and Accrued Liabilities	658,672,000
Deferred Credits and Reserves	101,212,000
Total	$2,024,446,000

SoCal's capital ratios as of March 31, 1983 are shown below as reported and adjusted to give pro forma effect to the transactions that follow:

	March 31, 1983	Pro Forma
Long-Term Debt	46.3%	46.8%
Short-Term Debt	4.1	3.6%
Total Debt	50.4	50.4
Common Equity	49.6	49.6
Total	100.0%	100.0%

1. The proposed issuance of $90,000,000 aggregate principal amount of its Debt Securities;

2. The retirement of $7,800,000 of Southern Counties Gas Company's 4% First Mortgage Bonds due May 1, 1983;

3. The $70,000,000 capital contribution by SoCal's parent, Pacific Lighting Corporation, during 1983; and

4. Current payments due to sinking funds in the amount of $9,526,000 for the retirement of bonds and $3,665,000 to reimburse the treasury for fund used to reacquire bonds for the sinking fund, a total of $13,191,000.

SoCal is engaged in an extensive construction program and estimates that gross expenditures required for its proposed construction program for calendar year 1983 will be about $236,390,000. A classification of the budgeted construction for 1983 is as follows:

Description	Amount
Services to New Customers	$ 61,965,000
Betterments and Replacements	135,355,000
Land, Construction, and Alteration of structures	31,921,000
Furniture, Equipment, and Tools	7,149,000
Total	$236,390,000

SoCal reports that as of December 31, 1983 it expects to have unreimbursed construction expenditures of about $162,848,819 to be financed principally by the Debt Securities and paid-in capital.

The Commission's Revenue Requirements Division has reviewed SoCal's 1983 construction program. The Division has no objections to the proposed security issue(s) specified in the application but reserves the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

SoCal proposes to obtain debt capital up to $90,000,000 aggregate principal amount through one or more financings in domestic or foreign capital markets on or before December 31, 1983.

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 and the price and interest rate on the Debt Securities issued in each financing will 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 will enable it to respond rapidly to changing market conditions and to obtain long-term financing sufficient to meet its requirements through 1983 upon the most favorable terms.

Domestic Financings

SoCal's proposed debt financings in domestic capital markets would be sold through the issuance of its Debt Securities to the public through competitive bidding, "shelf" sales after the receipt of a minimum of three bids, or to institutions, other lenders, or investors through negotiated private transactions. 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 sold 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, 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 (collectively referred to as the Terms and Provisions) of the Debt Securities issued in each financing sold 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 "shelf" sales after bidding, may be established by SoCal prior to the telephonic solicitation of bids or may be left open for specification by bidders. SoCal will specify or select that bid specification that in its judgment (having due regard for its financial requirements, and the prevailing and anticipated market conditions at the time of sale) provides it with the most favorable Terms and Provisions. SoCal will then telephonically solicit and obtain not less than three bids for the purchase of the Debt Securities having these Terms and Provisions. SoCal will then accept that bid (if any) that provides it with the lowest cost of money.

The Terms and Provisions of the Debt Securities issued in each financing sold through negotiated private transactions, the price, and interest rate (which may vary periodically) 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 the debt securities of a subsidiary, or an affiliate. The securities would be issued through negotiated underwritings or to institutions, other lenders, or investors through negotiated private transactions.

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 and/or investors, SoCal's financings in foreign capital markets may be sold indirectly through subsidiaries, or affiliates, incorporated in a jurisdiction with which the United States has favorable tax treaties. The foreign subsidiary and/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.

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 Terms and Provisions of the Debt Securities issued in each financing, 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.) 38614 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.

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.

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 "shelf" sales under the Securities and Exchange Commission's Rule 415, in combination with the receipt of at least three bids, or through negotiated private transactions, may provide public utilities with desired Terms and Provisions at a lower cost for their debt securities than financing which is limited to competitive bidding.

SoCal believes that such conditions may exist from time to time during the period of the financings (contemplated by this application) and believes compelling reasons exist for permitting it to finance through "shelf" sales after bidding and negotiated private transactions.

SoCal points out that financing effected through traditional competitive bidding requires newspaper publication of the invitation for written bids and establishment of a fixed date and fixed terms for a public offering prior to the time of the offering. Variations in the date and terms so established are difficult and flexibility to respond to rapidly changing market conditions are lost. The increased flexibility afforded by "shelf" sales after bidding 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.

With the adoption of Rule 415 by the Securities and Exchange Commission, it has become possible for an issuer to file a "shelf" registration statement for an offering and then to solicit and receive bids for the securities from prospective purchasers on very short notice. This allows an issuer to obtain even greater benefits over that associated with a traditional negotiated underwriting. The issuer may take almost instantaneous advantage of favorable market conditions, as well as the benefits of obtaining competitive bids to provide it with objective evidence that it has received the lowest cost of money.

Upon deciding to finance through "shelf" sales after bidding, SoCal would telephonically solicit and receive bids from prospective purchasers. SoCal may establish many of the Terms and Provisions, may leave them open in its solicitation of bids, or may request bids on one or more combinations of the Terms and Provisions. It will then obtain at least three bids for the purchase of the Debt Securities having the desired Terms and Provisions and accept that bid (if any) which provides it with the lowest cost of money.

SoCal urges that financing through negotiated private transactions may provide even greater flexibility to vary the timing and terms of a financing than does financing through "shelf" sales after bidding. This results from the absence of registration proceedings necessary for "shelf" sales 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 Provisions for the financing (as well as 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 the desired Terms and Provisions at a lower cost than could be obtained either through competitive bidding or "shelf" sales after bidding.

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 underwritings or negotiated private transactions. 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, SoCal requests exemption from the Commission's competitive bidding rule for its proposed financings in foreign capital markets and in domestic capital markets for its proposed financings through "shelf" sales after bidding and negotiated private transactions.

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 and domestic financings, through "shelf" sales after bidding and negotiated private transactions, to those periods in which it is reasonably confident that such financings will provide it with desired Terms and Provisions at a lower cost than is 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 in domestic markets through competitive bidding, "shelf" sales after receipt of at least three bids or negotiated private transactions. We will also grant it request for financing in foreign markets through negotiated underwritings and negotiated private transactions.

In order to provide additional flexibility for financings in domestic capital markets through competitive bidding, SoCal has 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 determined 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 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.

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 through "shelf" sales after bidding and in foreign capital markets may enable it to obtain more favorable financing than may otherwise be available to it. Accordingly, the Division concludes that SoCal's request for exemption from our competitive bidding requirements for financings effected through "shelf" sales after bidding and in foreign capital markets should be granted.

If SoCal issues and sells its Debt Securities in foreign markets or by means of negotiated private transactions in domestic markets, we will require SoCal to provide us with a showing of why it believes that the resulting cost of money was 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:

1.	Retirement of Bonds through Sinking Fund	$13,191,000
2.	Retirement of Bonds at Maturity	7,800,000
3.	Reimbursement of Construction Expenditures	69,009,000
	Total	$90,000,000

The amounts so reimbursed will become a part of SoCal's general treasury funds and may be used to reduce its 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 1983, attached to the application as Exhibit D, and has concluded that the proposed issuance of SoCal's Debt Securities will be necessary to help it 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 "shelf" sales after bidding or negotiated private transactions 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 Provisions, the price, and interest rate of the Debt Securities; or other evidences of indebtedness (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 "shelf" sales after bidding or negotiated private transactions 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 publication of an 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 opening of bids; to reject all bids submitted; to request the resubmission of bids; 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 authorizations requested.

Conclusions of Law

1. A public hearing is not necessary.

2. 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.

3. The application should be granted to the extent set forth in the order which follows:

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 $90,000,000, at any time or from time to time, on or before December 31, 1983 in one or more financings, in domestic capital markets, by means of competitive bidding, "shelf" sales after bidding, or negotiated private transactions or, in foreign capital markets, by means of negotiated underwritings or negotiated private transactions.

2. SoCal may mortgage or otherwise encumber its properties as security for its Debt Securities or other evidences of indebtedness.

3. SoCal may guarantee debt securities or other evidences of indebtedness issued by its subsidiaries, or affiliates, 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; the Terms and Provisions, the price, and interest rate of the 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, in domestic capital markets, through "shelf" sales after bidding and negotiated private transactions and, in foreign capital markets, through negotiated underwritings and negotiated private transactions, 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 for the opening of 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 bid, all without republishing an invitation for bids.

8. Within 30 days after awarding the contract for the sale of Debt Securities by competitive bidding or "shelf" sales after 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 "shelf" sales after bidding, 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 private transactions in domestic markets or, by negotiated underwritings or negotiated private transactions in foreign markets, SoCal shall file with the Commission a report showing why the resulting cost of money was 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 $40,504.50 the fee set by PU Code Section 1904(b) after taking credit for the retirement of $7,800,000 principal amount of Southern Counties Gas Company's 4% First Mortgage Bonds, due May 1, 1983 and $13,191,000 for the retirement of bonds through current sinking fund payments.

In all other respects, this order is effective today.

Dated JUN 29 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
09304
JUL 6 1983
$40504.50
By

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

Joseph E. Bodovitz, Executive Director

Assets	Amount
Services to New Customers	$ 61,965,000
Betterments and Replacements	135,355,000
Underground Storage	10,209,000
Land, Construction, and Alteration of structures	31,921,000
Furniture, Equipment, and Tools	7,149,000
Total	$246,599,000

SoCal reports that as of December 31, 1983 it expects to have unreimbursed construction expenditures of about $162,848,819 to be financed principally by the Debt Securities and paid-in capital.

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

SoCal proposes to obtain debt capital up to $90,000,000 aggregate principal amount through one or more financings in domestic or foreign capital markets on or before December 31, 1983.

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 and the price and interest rate on the Debt Securities issued in each financing will