Decision 83 06 097 JUN 29 1983 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & ELECTRIC COMPANY to issue and sell on or before December 31. 1984. up to $200.000.000 principal amount of First Mortgage Bonds and to execute one or more Supplemental Indentures.	Application 83-05-47 (Filed May 23. 1983)

OPINION

San Diego Gas & Electric Company (SDG&E) requests authority. under Public Utilities (PU) Code Sections 816 through 830. for the following:

1. To issue and sell up to $200.000.000 aggregate principal amount of its First Mortgage Bonds (New Bonds). in one or more series. on or before December 31. 1984. by means of competitive bidding. negotiated public offering. or negotiated private placement. under terms and conditions to be determined by market conditions which will govern the price. interest rate. maturity date. and redemption provisions for each series of the New Bonds at the time of sale;

2. To be exempted from the Commission's competitive bidding requirements those New Bonds sold by means of negotiated private placement or negotiated public offering;

3. To execute and deliver a supplemental indenture with respect to each proposed series of New Bonds; and

4. To account for any premiums paid in connection with the refunding of the various long-term securities specified in the application and the unamortized costs of the refunded long-term securities by amortizing the amounts over the life of the New Bonds to be issued.

Also shown as part of Exhibit C is SDG&E's Balance Sheet dated as of March 31, 1983 summarized as follows:

Assets	Amount
Net Utility Plant	$2,127,022,600
Other Property & Investments - Net	34,843,315
Current and Accrued Assets	296,203,983
Deferred Debits	34,839,328
Total	$2,492,909,226
Liabilities and Equity	
Common Equity	$ 841,842,937
Preferred/Preference Stock	269,000,000
Long-Term Debt	801,651,424
Current and Accrued Liabilities	434,076,609
Deferred Credits and Reserves	146,338,256
Total	$2,492,909,226

SDG&E proposes to issue and sell, in one or more series, up to $200,000,000 aggregate principal amount of its New Bonds by means of competitive bidding, negotiated public offering, or negotiated private placement under terms and conditions to be determined by market conditions prevailing immediately prior to the time of sale, or sales, which will govern the price, interest rate, maturity date, and redemption provisions for each series of the New Bonds. SDG&E will advise the Commission by letter promptly after the sale of each series of New Bonds of the terms and conditions of the sale.

The New Bonds will be issued in conformity with the provisions of, and secured by, SDG&E's Mortgage and Deed of Trust

SDG&E requests an exemption because of the following reasons:

1. Although market conditions for the sale of SDG&E's New Bonds have improved in recent months, volatility in interest rates are expected to continue, particularly in light of the large demand for long-term financing by both government and private industry;

2. During periods of economic uncertainty, investors have placed increased emphasis on the credit worthiness of a borrower, which increases the difficulty for those with lower credit ratings (such as SDG&E's) to raise capital. SDG&E's credit rating has been Baa2/BBB for many years, however, SDG&E has recently received an upgraded rating from both rating agencies. Moody's Investors Services (Moody) has now rated the company's debt securities A3. Moody's rating A3 is the lowest "A" rating classification it gives. The other rating agency, Standard & Poor's, Inc., has upgraded SDG&E's debt securities to an A- rating. SDG&E's New Bonds may not as yet reap any substantial benefit because these will still be rated in the lowest class A category. The demand for SDG&E's New Bonds would still be lower than the demand for bonds from other straight "A" rated utilities because SDG&E is not as well known as others in the market. As a lower "A" rated utility, SDG&E claims that during periods of reduced demand for bonds of the lower "A" rated utilities, the ability to use a negotiated offering would allow it the flexibility it needs to market its New Bonds;

CORRECTION

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THIS DOCUMENT

HAS BEEN REPHOTOGRAPHED

TO ASSURE LEGIBILITY

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Application of SAN DIEGO GAS & ELECTRIC COMPANY to issue and sell on or before December 31, 1984, up to $200,000,000 principal amount of First Mortgage Bonds and to execute one or more Supplemental Indentures.	Application 83-05-47 (Filed May 23, 1983)

O P I N I O N

San Diego Gas & Electric Company (SDG&E) requests authority, under Public Utilities (PU) Code Sections 816 through 830, for the following:

1. To issue and sell up to $200,000,000 aggregate principal amount of its First Mortgage Bonds (New Bonds), in one or more series, on or before December 31, 1984, by means of competitive bidding, negotiated public offering, or negotiated private placement, under terms and conditions to be determined by market conditions which will govern the price, interest rate, maturity date, and redemption provisions for each series of the New Bonds at the time of sale;

2. To be exempted from the Commission's competitive bidding requirements those New Bonds sold by means of negotiated private placement or negotiated public offering;

3. To execute and deliver a supplemental indenture with respect to each proposed series of New Bonds; and

4. To account for any premiums paid in connection with the refunding of the various long-term securities specified in the application and the unamortized costs of the refunded long-term securities by amortizing the amounts over the life of the New Bonds to be issued.

Summary of Decision

This decision grants SDG&E the authority requested in its application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of May 24, 1983. No protests have been received.

SDG&E, a California corporation, operates as a public utility under jurisdiction of this Commission. SDG&E provides electric service in portions of Orange County and electric, gas, and steam service in portions of San Diego County.

In its Statement of Income and Retained Earnings for calendar year 1982, SDG&E reported it generated total operating revenue of $1,430,948,322 and net income of $157,302,981 shown as part of Exhibit A to Application (A.) 83-03-32. For the three months ended March 31, 1983, SDG&E reported it generated total operating revenue of $396,136,758 and net income of $48,011,602 shown as part of Exhibit C, attached to the application.

Also shown as part of Exhibit C is SDG&E's Balance Sheet dated as of March 31, 1983 summarized as follows:

Assets	Amount
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SDG&E proposes to issue and sell, in one or more series, up to $200,000,000 aggregate principal amount of its New Bonds by means of competitive bidding, negotiated public offering, or negotiated private placement under terms and conditions to be determined by market conditions prevailing immediately prior to the time of sale, or sales, which will govern the price, interest rate, maturity date, and redemption provisions for each series of the New Bonds. SDG&E will advise the Commission by letter promptly after the sale of each series of New Bonds of the terms and conditions of the sale.

The New Bonds will be issued in conformity with the provisions of, and secured by, SDG&E's Mortgage and Deed of Trust

to the Bank of California, N.A. (as Trustee) dated July 1, 1940 as amended by 26 supplemental indentures. The final form of the supplemental indenture will provide for the terms and conditions under which the New Bonds are sold, such as: The rate of interest, maturity and other payment dates; the place and manner of payments; the aggregate principal amount of up to $200,000,000; call provisions not to exceed 10 years; and other redemption provisions including sinking fund (if any) deemed necessary and advisable by SDG&E.

Request for Exemption from Competitive Bidding

SDG&E requests an exemption for the sale of its New Bonds from the Commission's competitive bidding requirements set forth in Decision (D.) 38614 dated January 15, 1946 as amended in Case 4751. SDG&E seeks authority to issue and sell its New Bonds either by competitive bidding or to be exempted so that the New Bonds may be sold either by means of a negotiated public offering or a negotiated private placement depending on market conditions existing at the time of the projected sale or sales.

SDG&E believes that compelling circumstances exist for requesting an exemption and believes the financial flexibility the exemption would afford would enable it to meet its financial requirements on the most favorable terms available.

SDG&E requests an exemption because of the following reasons:

1. Although market conditions for the sale of SDG&E's New Bonds have improved in recent months, volatility in interest rates are expected to continue, particularly in light of the large demand for long-term financing by both government and private industry;

2. During periods of economic uncertainty, investors have placed increased emphasis on the credit worthiness of a borrower, which increases the difficulty for those with lower credit ratings (such as SDG&E's) to raise capital. SDG&E's credit rating has been Baa2/BBB for many years, however, SDG&E has recently received an upgraded rating from both rating agencies. Moody's Investors Services (Moody) has now rated the company's debt securities A3. Moody's rating A3 is the lowest "A" rating classification it gives. The other rating agency, Standard & Poor's, Inc., has upgraded SDG&E's debt securities to an A- rating. SDG&E's New Bonds may not as yet reap any substantial benefit because these will still be rated in the lowest class A category. The demand for SDG&E's New Bonds would still be lower than the demand for bonds from other straight "A" rated utilities because SDG&E is not as well known as others in the market. As a lower "A" rated utility, SDG&E claims that during periods of reduced demand for bonds of the lower "A" rated utilities, the ability to use a negotiated offering would allow it the flexibility it needs to market its New Bonds;

3. A negotiated public offering would allow the terms and pricing strategy of an issue to be adjusted until the moment of the actual pricing of the issue. This would provide greater assurance of a successful offering at the minimum effective interest cost; and

4. A negotiated public offering sale with selected underwriters is important during periods of uncertain demand for lower rated debt securities because the underwriters are able to pre-sell the issue since the underwriters' salesmen are assured of having securities to sell. This insures a successful sale of New Bonds at a lower effective interest rate.

After extensive study, the Commission, by D.38614 dated January 15, 1946 in Case 4761, instituted a rule which requires competitive bidding for the issuance and sale of debt securities. The Commission may grant an exemption from the rule if the utility makes a clear and convincing showing that the sale of debt securities by competitive bidding would be adverse to the utility and its customers.

In D.91984 dated July 2, 1980 (for SDG&E) in A.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 effectivenss of the underwriting group will not serve as compelling reasons. individually or collectively. for granting an exemption from the competitive bidding rule.

We are frankly uncertain whether strict adherence to the competitive bidding rule would prove beneficial in this instance. Consequently. for this application only. we will accept the recommendation of the Revenue Requirements Division. We will authorize SDG&E to proceed on either a competitive bid. a private placement, or a negotiated public offering.

Because the proposed New Bonds may be sold by negotiated private placement or by negotiated public offering on terms which will be negotiated after the issuance of this decision and because of the Revenue Requirements Division's belief and conclusion that the New Bonds will be sold at a cost as low. if not lower. than would prevail if the New Bonds were to be sold at competitive bidding. we believe that applying the Commission's competitive bidding requirements and conditions set forth in D.91984 in this proceeding for a negotiated private placement would not be in the best interests of SDG&E or its ratepayers. These requirements and conditions would not operate to ensure that SDG&E's sale of the New Bonds would be at the most favorable cost of money. However, in order not to preclude such an offering we will also grant SDG&E the authority to issue the proposed New Bonds by means of a competitive offering. If the New Bonds are sold by means of a negotiated private placement or a negotiated public offering. SDG&E 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 the interest expense if it is determined that the cost of money incurred was not the most prudent. We will also require SDG&E 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 of time after the issuance and sale of its New Bonds.

Use of the Proceeds

SDG&E seeks to use the net proceeds from the sale, or sales, of its New Bonds (exclusive of accrued interest) for the discharge or lawful refunding of one or more series of its outstanding First Mortgage Bonds and preference stock as shown in Exhibits F and G attached to the application.

The current market price of the long-term debt and preference stock securities that SDG&E would attempt to refund are above the original offering price for each of those securities because of the general fall in interest rates that has occurred since the time those securities were first issued. The premium to be offered and paid by SDG&E in connection with the purchase of any of the securities will be established at the time a tender offer is made and will reflect existing market conditions. SDG&E, however, would not proceed with a tender offer to purchase any of its securities unless the overall economic benefits to be realized from a completed tender offer would justify the premium and other costs incurred.

Any proceeds not expended in connection with the discharge or refunding of SDG&E's long-term obligations will be used for reimbursement of SDG&E's treasury for capital expenditures and retirement of its outstanding short-term debt.

SDG&E's capital ratios reported as of March 31, 1983 are shown below as recorded and adjusted to give pro forma effect to the transactions that follows:

	March 31, 1983	Pro Forma
Long-Term Debt	36.5%	44.0%
Short-Term Debt	11.4	2.5
Total Debt	47.9%	46.5%
Preferred/Preference Stock	12.6	10.1
Common Equity	39.5	43.4
	100.0%	100.0%

1. The proposed issuance and sale of up to $200,000,000 aggregate principal amount of First Mortgage Bonds, Series Z, the net proceeds from which will be used to refund one or more series of outstanding bonds and preference stock. For the purposes of the pro forma calculation, it has been assumed that $150,000,000 of the bonds and $50,000,000 of the preference stock would be refunded;

2. The proposed issuance and sale of up to $300,000,000 of First Mortgage Bonds. composed of $125.000.000 of New Bonds authorized but unissued under Decision (D.) 82-12-070 dated December 15. 1982 in Application (A.) 82-10-26 and the proposed additional issuance and sale of $175.000.000 under D.83-05-057 dated May 18, 1983 in A.83-03-32, or, in the alternative. the issuance of $300,000.000 of a long-term debt obligation to the City of San Diego in connection with an industrial development bond financing under D.83-05-057. In either event, it is estimated the total net proceeds of $292,500,000 will be produced;

3. The issuance and sale of 6.500,000 shares of SDG&E's Common Stock, $5 par value at the assumed price of $18 per share, estimated to produce net proceeds of $112,320.000 (D.82-12-070 dated December 15. 1982 in A.82-10-26);

4. The issuance and sale of up to 4,000,000 shares of SDG&E's Common Stock, $5 par value, authorized but unissued under its amended Dividend Reinvestment Plan (DRP) estimated to produce net proceeds of $80.000,000 at the assumed price of $20 per share (D.83-05-009 dated May 4, 1983 in A.83-03-37);

5. The issuance and sale of up to 447,327 shares of SDG&E's Common Stock, $5 par value, authorized but unissued under its amended DRP estimated to produce net proceeds of $7,729,811 at the assumed price of $18 per share (D.91853 dated June 3, 1980 in A.59547);

6. The issuance and sale of up to 1.918.800 shares of SDG&E's Common Stock. $5 par value. authorized but unissued under its Tax Redemption Stock Ownership Plan estimated to produce net proceeds of $34.538.400 at the assumed price of $18 per share (D.82-09-014 dated September 8. 1982 in A.82-07-50);

7. The issuance and sale of up to 1.811.942 shares of SDG&E's Common Stock. $5 par value authorized but unissued under its Employee Savings Plan estimated to produce net proceeds of $32.614.956 at the assumed price of $18 per share (D.92805 dated March 12. 1981 in A.60228); and

8. The issuance and sale of up to 1.350.000 shares of Preference Stock (Cumulative) authorized but unissued (D.93733 dated December 1. 1981 in A.60933. as amended by D.82-12-070 dated December 15. 1982 in A.82-10-26) estimated to produce net proceeds of $35.640.000.

As of March 31. 1983. SDG&E had outstanding short-term obligations totaling $242.125.456. This total consisted of commercial paper and bank loans in the amount of $152.000.000; $64,000,000 of bankers' acceptances (used to finance fuel oil); $24.125.456 covering the current portion of long-term debt payable within 12 months; and $2,000,000 in sinking fund requirements for preferred stock.

SDG&E's construction budget for calendar years 1983 and 1984 amounts to about $714.484.000 of which $88.217.000 has been spent as of March 31. 1983. Major classifications of the total budgeted construction (including allowances for funds used for construction) are summarized as follows:

Description	1983	1984
Electric Production	$125.552.000	$ 48.332.000
Electric Transmission	196.574.000	126.977.000
Electric Distribution	76.449.000	91.048.000
Gas Production. Transmission. and Distribution	19.723.000	22.537.000
Steam Department	25.000	150.000
Common Plant	2.418.000	4.699.000
Total	$420.741.000	$293.743.000

SDG&E reports that it had reimbursed construction as of March 31, 1983 totaling $305.498.996.

SDG&E also requests authority of the Commission to authorize it to account for any premiums paid in connection with the refunding of the various long-term securities herein and the unamortized costs of the refunded long-term securities by amortizing the amounts over the life of the New Bonds. The Commission believes this accounting treatment would be proper.

The Commission's Revenue Requirements Division has reviewed SDG&E's 1983 and 1984 construction program. The Division has no objection to SDG&E's proposed sale of its New Bonds but reserves the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

The Revenue Requirements Division has analyzed SDG&E's cash requirements forecast and has concluded that internally generated funds will provide 37% of the capital expenditures for 1983. The Division concludes that the proposed issuance of SDG&E's New Bonds will be necessary to help meet it forecasted capital requirements.

Findings of Fact

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

2. SDG&E has need for external funds for the purposes set forth in the application.

3. The proposed New Bonds would be for proper purposes.

4. Authorizing SDG&E to determine the amount, timing, terms and conditions, and method of offering each series of its proposed New Bonds based upon market conditions at the time of sale and within the constraints set forth in the application is in the public interest.

5. Exempting SDG&E's proposed New Bonds from the Commission's competitive bidding requirements for those New Bonds sold by means of a negotiated private placement or a negotiated public offering is in the public interest. SDG&E should also be authorized to effect the sale or sales of its New Bonds by means of a competitive offering.

6. The proposed amortization of the unamortized costs associated with the refunded securities and the premiums paid for the refunded securities would not be adverse to the public interest.

7. The money, property, or labor to be procured or paid for by the proposed issuance and sale of the New Bonds is reasonably required for the purposes specified in the application.

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

Conclusions of Law

1. A public hearing is not necessary.

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

The proposed New Bond issues are for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the New Bonds issues 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 SDG&E to issue its New Bonds expeditiously.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E), on or after the effective date of this order and on or before December 31, 1984, may issue and sell up to $200,000,000 aggregate principal amount of its First Mortgage Bonds (New Bonds), in one or more series, by means of competitive bidding or by negotiated private placement or by a negotiated public offering upon terms and conditions substantially consistent with those set forth in, or contemplated by the application.

2. SDG&E's proposed New Bonds are exempted from the Commission's competitive bidding requirements as set forth in D.38614 dated January 15, 1946 in Case 4761, as amended for a sale, or sales, effected by means of negotiated private placement or a negotiated public offering.

3. SDG&E may execute and deliver one or more supplemental indentures for each series of New Bonds issued under this order.

4. SDG&E shall use the net proceeds from the sale, or sales, of its New Bonds for the purposes referred to in the application.

5. SDG&E may account for the premiums paid in connection with the refunding of the various long-term securities and the unamortized costs of the refunded securities by amortizing the amounts over the life of the New Bonds to be issued.

6. If the New Bonds are sold by competitive bidding, SDG&E shall file a written report with the Commission, for each bid received, the name of the bidder, the price, the interest rate, and cost of money to the company based on the price and interest rate.

7. Promptly after SDG&E ascertains the price, interest rate, and other terms pertaining to the New Bonds, SDG&E shall notify the Commission in writing.

8. If the New Bonds are sold by negotiated private placement or by a negotiated public offering, within 30 days after their issuance and sale, SDG&E shall file with the Commission a report setting forth the reason the company believes the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers.

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

10. The authority granted by this order to issue New Bonds will become effective when SDG&E pays $106,000, the fee set by PU Code Section 1904(b). In all other repsects, 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
JUL 5 1983

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

Joseph E. Bodovitz, Executive Director

RR/KLH/ARM/WPSC

ORIGINAL

Decision 83 06 037 JUN 29 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & ELECTRIC COMPANY to issue and sell on or before December 31, 1984, up to $200,000,000 principal amount of First Mortgage Bonds and to execute one or more Supplemental Indentures.	Application 83-05-47 (Filed May 23, 1983)

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1. To issue and sell up to $200,000,000 aggregate principal amount of its First Mortgage Bonds (New Bonds), in one or more series, on or before December 31, 1984, by means of competitive bidding, negotiated public offering, or negotiated private placement, under terms and conditions to be determined by market conditions which will govern the price, interest rate, maturity date, and redemption provisions for each series of the New Bonds at the time of sale;

2. To be exempted from the Commission's competitive bidding requirements those New Bonds sold by means of negotiated private placement or negotiated public offering;

3. To execute and deliver a supplemental indenture with respect to each proposed series of New Bonds; and

4. To account for any premiums paid in connection with the refunding of the various long-term securities specified in the application and the unamortized costs of the refunded long-term securities by amortizing the amounts over the life of the New Bonds to be issued.

Summary of Decision

This decision grants SDG&E the authority requested in its application for a sale by means of competitive bidding and grants an exemption for a sale, or sales, by means of a negotiated private placement. An exemption for a sale, or sales, by means of a negotiated public offering is denied but provision is made for a later modification if justified by market conditions.

Notice of the filing of the application appeared on the Commission's Daily Calendar of May 24, 1983. No protests have been received.

SDG&E, a California corporation, operates as a public utility under jurisdiction of this Commission. SDG&E provides electric service in portions of Orange County and electric, gas, and steam service in portions of San Diego County.

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Request for Exemption from Competitive Bidding

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SDG&E believes that compelling circumstances exist for requesting an exemption and believes the financial flexibility the exemption would afford would enable it to meet its financial requirements on the most favorable terms available.

SDG&E requests an exemption because of the following reasons:

1. Although market conditions for the sale of SDG&E's New Bonds have improved in recent months, volatility in interest rates are expected to continue, particularly in light of the large demand for long-term financing by both government and private industry;

2. During periods of economic uncertainty, investors have placed increased emphasis on the credit worthiness of a borrower, which increases the difficulty for those with lower credit ratings (such as SDG&E's) to raise capital. SDG&E's credit rating has been Baa2/BBB for many years, however, SDG&E has recently received an upgraded rating from both rating agencies. Moody's Investors Services (Moody) has now rated the company's debt securities A3. Moody's rating A3 is the lowest "A" rating classification it gives. The other rating agency, Standard & Poor's, Inc., has upgraded SDG&E's debt securities to an A- rating. SDG&E's New Bonds may not as yet reap any substantial benefit because these will still be rated in the lowest class A category. The demand for SDG&E's New Bonds would still be lower than the demand for bonds from other straight "A" rated utilities because SDG&E is not as well known as others in the market. As a lower "A" rated utility, SDG&E claims that during periods of reduced demand for bonds of the lower "A" rated utilities, the ability to use a negotiated offering would allow it the flexibility it needs to market its New Bonds;

3. A negotiated public offering would allow the terms and pricing strategy of an issue to be adjusted until the moment of the actual pricing of the issue. This would provide greater assurance of a successful offering at the minimum effective interest cost; and

4. A negotiated public offering sale with selected underwriters is important during periods of uncertain demand for lower rated debt securities because the underwriters are able to pre-sell the issue since the underwriters' salesmen are assured of having securities to sell. This insures a successful sale of New Bonds at a lower effective interest rate.

After extensive study, the Commission, by D.38614 dated January 15, 1946 in Case 4761, instituted a rule which requires competitive bidding for the issuance and sale of debt securities. The Commission may grant an exemption from the rule if the utility makes a clear and convincing showing that the sale of debt securities by competitive bidding would be adverse to the utility and its customers.

In D.91984 dated July 2, 1980 (for SDG&E) in A.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 effectivenss of the underwriting group will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

The Commission believes that the principles of the competitive bidding rule are valid under current economic conditions. The Commission is not convinced that the reasons contained in the application are a clear and convincing showing that adherence to the competitive bidding requirements rule would be adverse to SDG&E and its customers. The Commission concludes that because of current economic conditions and the downward trend in interest costs, an exemption from its competitive bidding requirements should not be granted for a negotiated public offering at this time.

The Commission, therefore, denies SDG&E request for an exemption from the competitive bidding rule for a negotiated public offering, but if economic conditions should change, we will allow SDG&E to petition the Commission for the modification of this decision.

Because the proposed New Bonds may be sold by negotiated private placement on terms which will be negotiated after the issuance of this decision and because of the Revenue Requirements Division's belief and conclusion that the New Bonds will be sold at a cost as low, if not lower, than would prevail if the New Bonds were to be sold at competitive bidding, we believe that applying the Commission's competitive bidding requirements and conditions set forth in D.91984 in this proceeding for a negotiated private placement would not be in the best interests of SDG&E or its ratepayers. These requirements and conditions would not operate to ensure that SDG&E's sale of the New Bonds would be at the most favorable cost of money. However, in order not to preclude such an offering we will also grant SDG&E the authority to issue the proposed New Bonds by means of a competitive offering. We also find that in the light of the current market conditions where interest rates are falling, the argument for an exemption for a negotiated public offering is not convincing. If the New Bonds are sold by means of a negotiated private placement, SDG&E 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 the interest expense if it is determined that the cost of money incurred was not the most prudent. We will also require SDG&E 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 of time after the issuance and sale of its New Bonds.

Use of the Proceeds

SDG&E seeks to use the net proceeds from the sale, or sales, of its New Bonds (exclusive of accrued interest) for the discharge or lawful refunding of one or more series of its outstanding First Mortgage Bonds and preference stock as shown in Exhibits F and G attached to the application.

The current market price of the long-term debt and preference stock securities that SDG&E would attempt to refund are above the original offering price for each of those securities because of the general fall in interest rates that has occurred since the time those securities were first issued. The premium to be offered and paid by SDG&E in connection with the purchase of any of the securities will be established at the time a tender offer is made and will reflect existing market conditions. SDG&E, however, would not proceed with a tender offer to purchase any of its securities unless the overall economic benefits to be realized from a completed tender offer would justify the premium and other costs incurred.

Any proceeds not expended in connection with the discharge or refunding of SDG&E's long-term obligations will be used for reimbursement of SDG&E's treasury for capital expenditures and retirement of its outstanding short-term debt.

SDG&E's capital ratios reported as of March 31, 1983 are shown below as recorded and adjusted to give pro forma effect to the transactions that follows:

	March 31, 1983	Pro Forma
Long-Term Debt	36.5%	44.0%
Short-Term Debt	11.4	2.5
Total Debt	47.9%	46.5%
Preferred/Preference Stock	12.6	10.1
Common Equity	39.5	43.4
	100.0%	100.0%

1. The proposed issuance and sale of up to $200,000,000 aggregate principal amount of First Mortgage Bonds, Series Z, the net proceeds from which will be used to refund one or more series of outstanding bonds and preference stock. For the purposes of the pro forma calculation, it has been assumed that $150,000,000 of the bonds and $50,000,000 of the preference stock would be refunded;

2. The proposed issuance and sale of up to $300,000,000 of First Mortgage Bonds, composed of $125,000,000 of New Bonds authorized but unissued under Decision (D.) 82-12-070 dated December 15, 1982 in Application (A.) 82-10-26 and the proposed additional issuance and sale of $175,000,000 under D.83-05-057 dated May 18, 1983 in A.83-03-32, or, in the alternative, the issuance of $300,000,000 of a long-term debt obligation to the City of San Diego in connection with an industrial development bond financing under D.83-05-057. In either event, it is estimated the total net proceeds of $292,500,000 will be produced;

3. The issuance and sale of 6,500,000 shares of SDG&E's Common Stock, $5 par value at the assumed price of $18 per share, estimated to produce net proceeds of $112,320,000 (D.82-12-070 dated December 15, 1982 in A.82-10-26);

4. The issuance and sale of up to 4,000,000 shares of SDG&E's Common Stock, $5 par value, authorized but unissued under its amended Dividend Reinvestment Plan (DRP) estimated to produce net proceeds of $80,000,000 at the assumed price of $20 per share (D.83-05-009 dated May 4, 1983 in A.83-03-37);

5. The issuance and sale of up to 447,327 shares of SDG&E's Common Stock, $5 par value, authorized but unissued under its amended DRP estimated to produce net proceeds of $7,729,811 at the assumed price of $18 per share (D.91853 dated June 3, 1980 in A.59547);

6. The issuance and sale of up to 1,918,800 shares of SDG&E's Common Stock, $5 par value, authorized but unissued under its Tax Redemption Stock Ownership Plan estimated to produce net proceeds of $34,538,400 at the assumed price of $18 per share (D.82-09-014 dated September 8, 1982 in A.82-07-50);

7. The issuance and sale of up to 1,811,942 shares of SDG&E's Common Stock, $5 par value authorized but unissued under its Employee Savings Plan estimated to produce net proceeds of $32,614,956 at the assumed price of $18 per share (D.92805 dated March 12, 1981 in A.60228); and

8. The issuance and sale of up to 1,350,000 shares of Preference Stock (Cumulative) authorized but unissued (D.93733 dated December 1, 1981 in A.60933, as amended by D.82-12-070 dated December 15, 1982 in A.82-10-26) estimated to produce net proceeds of $35,640,000.

As of March 31, 1983, SDG&E had outstanding short-term obligations totaling $242,125,456. This total consisted of commercial paper and bank loans in the amount of $152,000,000; $64,000,000 of bankers' acceptances (used to finance fuel oil); $24,125,456 covering the current portion of long-term debt payable within 12 months; and $2,000,000 in sinking fund requirements for preferred stock.

SDG&E's construction budget for calendar years 1983 and 1984 amounts to about $714,484,000 of which $88,217,000 has been spent as of March 31, 1983. Major classifications of the total budgeted construction (including allowances for funds used for construction) are summarized as follows:

Description	1983	1984
Electric Production	$125,552,000	$ 48,332,000
Electric Transmission	196,574,000	126,977,000
Electric Distribution	76,449,000	91,048,000
Gas Production, Transmission, and Distribution	19,723,000	22,537,000
Steam Department	25,000	150,000
Common Plant	2,418,000	4,699,000
Total	$420,741,000	$293,743,000

SDG&E reports that it had reimbursed construction as of March 31, 1983 totaling $305,498,996.

SDG&E also requests authority of the Commission to authorize it to account for any premiums paid in connection with the refunding of the various long-term securities herein and the unamortized costs of the refunded long-term securities by amortizing the amounts over the life of the New Bonds. The Commission believes this accounting treatment would be proper.

The Commission's Revenue Requirements Division has reviewed SDG&E's 1983 and 1984 construction program. The Division has no objection to SDG&E's proposed sale of its New Bonds but reserves the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

The Revenue Requirements Division has analyzed SDG&E's cash requirements forecast and has concluded that internally generated funds will provide 37% of the capital expenditures for 1983. The Division concludes that the proposed issuance of SDG&E's New Bonds will be necessary to help meet it forecasted capital requirements.

<u>Findings of Fact</u>

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

2. SDG&E has need for external funds for the purposes set forth in the application.

3. The proposed New Bonds would be for proper purposes.

4. Authorizing SDG&E to determine the amount, timing, terms and conditions, and method of offering each series of its proposed New Bonds based upon market conditions at the time of sale and within the constraints set forth in the application is in the public interest.

5. Exempting SDG&E's proposed New Bonds from the Commission's competitive bidding requirements for those New Bonds sold by means of a negotiated private placement is in the public interest. SDG&E should also be authorized to effect the sale or sales of its New Bonds by means of a competitive offering. An exemption for a sale, or sales, by means of a negotiated public offering should be denied.

6. The proposed amortization of the unamortized costs associated with the refunded securities and the premiums paid for the refunded securities would not be adverse to the public interest.

7. The money, property, or labor to be procured or paid for by the proposed issuance and sale of the New Bonds is reasonably required for the purposes specified in the application.

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

<u>Conclusions of Law</u>

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 New Bond issues are for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the New Bonds issues 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 SDG&E to issue its New Bonds expeditiously.

ORDER

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E), on or after the effective date of this order and on or before December 31, 1984, may issue and sell up to $200,000,000 aggregate principal amount of its First Mortgage Bonds (New Bonds), in one or more series, by means of competitive bidding or by negotiated private placement upon terms and conditions substantially consistent with those set forth in, or contemplated by the application.

2. SDG&E's proposed New Bonds are exempted from the Commission's competitive bidding requirements as set forth in D.38614 dated January 15, 1946 in Case 4761, as amended for a sale, or sales, effected by means of negotiated private placement. The request for an exemption for the sale, or sale, of the New Bonds by means of a negotiated public offering is denied.

3. SDG&E may execute and deliver one or more supplemental indentures for each series of New Bonds issued under this order.

4. SDG&E shall use the net proceeds from the sale, or sales, of its New Bonds for the purposes referred to in the application.

5. SDG&E may account for the premiums paid in connection with the refunding of the various long-term securities and the unamortized costs of the refunded securities by amortizing the amounts over the life of the New Bonds to be issued.

6. If the New Bonds are sold by competitive bidding, SDG&E shall file a written report with the Commission, for each bid received, the name of the bidder, the price, the interest rate, and cost of money to the company based on the price and interest rate.

7. Promptly after SDG&E ascertains the price, interest rate, and other terms pertaining to the New Bonds, SDG&E shall notify the Commission in writing.

8. If the New Bonds are sold by negotiated private placement, within 30 days after their issuance and sale, SDG&E shall file with the Commission a report setting forth the reason the company believes the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers.

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

10. The authority granted by this order to issue New Bonds will become effective when SDG&E pays $106,000, the fee set by PU Code Section 1904(b). In all other repsects, 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
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