ORIGINAL

Decision 83 11 010 NOV 2 - 1983

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA GAS COMPANY for Authorization to Obtain Debt Capital Not to Exceed $200 Million to Refund Outstanding Bonds.	Application 83-09-20 (Filed September 7, 1983)

O P I N I O N

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 $200,000,000 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 markets by means of competitive bidding or negotiated public offerings (both of which may be sold under a shelf registration statement) or in foreign markets by means of negotiated public offerings or negotiated private placements within two years of the date of this decision;

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

3. To guarantee debt securities issued and sold by SoCal's subsidiaries, or affiliates, in financings sold 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; and other terms and provisions as specified in the application for SoCal's Debt Securities;

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

6. To shorten to one day the period of time between the publication of an invitation for competitive bids and the opening of bids for SoCal's Debt Securities sold by means of competitive bidding in domestic markets;

7. To further modify the Commission's competitive bidding requirements to permit SoCal to accelerate, postpone, or cancel its scheduled offering dates; 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 bids without republishing an invitation for bids; and

8. To amortize the unamortized costs associated with, and the premiums paid for, the refunded securities over the life of the new Debt Securities.

<u>Summary of Decision</u>

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

Notice of the filing of the application appeared on the Commission's Daily Calendar of September 12, 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 June 30, 1983, SoCal reports in Exhibit D, attached to the application, that it generated total operating revenues of $4,484,321,844 and net income of $89,129,141.

Also shown as part of Exhibit B is SoCal's Balance Sheet as of June 30, 1983 summarized as follows:

Assets	Amount
Net Utility Plant	$1,276,177,000
Other Property and Investments - Net	23,888,000
Current and Accrued Assets	421,083,000
Deferred Debits	221,893,000
Total	$1,943,041,000
Liabilities and Equity	
Common Equity	$ 607,386,000
Preferred Stock	21,551,000
Long-Term Debt	615,815,000
Current and Accrued Liabilities	586,498,000
Deferred Credits	111,791,000
Total	$1,943,041,000

SoCal's capital ratios as of June 30, 1983 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	June 30, 1983	Pro Forma
Long-Term Debt	45.4%	46.6%
Short-Term Debt	4.1	3.6
Total Debt	49.5%	50.2%
Preferred Stock	1.7	5.7
Common Equity	48.8	44.1
Total	100.0%	100.0%

1. The proposed issuance of up to $200,000,000 aggregate principal amount of Debt Securities;

2. The issuance and sale of up to $90,000,000 aggregate principal amount of Debt Securities; (Decision (D.) 83-06-093 dated June 29, 1983 in Application (A.)83-05-42);

3. The $70,000,000 capital contribution by Pacific Lighting Corporation (PLC), SoCal's parent (D.83-06-093 dated June 29, 1983 in A.83-05-42);

4. The $70,000,000 cash dividend to PLC as contemplated in D.83-09-070 dated September 30, 1983 in A.83-08-25 in reimbursement for the capital contribution made under D.83-06-093 above;

5. The $10,000,000 of earnings to be retained as contemplated in A.83-08-25 prior to the cash dividend referred to in Item 4 above;

6. The issuance and sale of up to $60,000,000 of preferred stock as contemplated in A.83-08-25;

7. The issuance to PLC shares of common stock as a stock dividend proposed by A.83-08-25;

8. The retirement of $70,000,000 aggregate principal amount of 15% First Mortgage Bonds, Series N, due in February of 2001 (D.92452 dated December 2, 1980 in A.60005);

9. The retirement of $60,000,000 aggregate principal amount of 17-3/8% First Mortgage Bonds, Series O, due in September of 2001 (D.92452 dated December 2, 1980 in A.60005);

10. The retirement of $60,000,000 aggregate principal amount of 15-3/4% First Mortgage Bonds, Series P, due in April of 1992 (D.82-03-025 dated March 2, 1982 in A.61165); and

11. The capital contributions or retained earnings to increase equity capital in an amount equal to the increase in long-term debt arising from the premiums required for the repurchase of some or all of one or more series of SoCal's outstanding First Mortgage Bonds.

SoCal proposes to obtain debt capital up to $200,000,000 aggregate principal amount, through one or more financings, in domestic or foreign capital markets, within two years of the date of this decision, for the purpose of refunding all or a portion of one or more series of its outstanding First Mortgage Bonds, to the extent these bonds are more costly to SoCal than the anticipated costs of the proposed financings.

The precise amount and timing of each financing, the market in which each is sold, the method by which each is sold, the terms, provisions, the price, and interest rate on the Debt 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 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 refund all, or a portion of, SoCal's outstanding series of its First Mortgage Bonds 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 or negotiated public offerings (both of which may be effected by sales under a shelf registration statement) or through negotiated private transactions. The Debt Securities would be sold at any time, or from time to time, within two years from the date of this decision (which period of authorization will permit the sale of the Debt Securities for most of the two year period for which securities registered under a shelf registration statement may be sold under the Securities and Exchange Commission's Rule 415). Any of these financings in domestic capital markets, together with debt financings in foreign capital markets, would provide SoCal with debt capital up to $200,000,000 aggregate principal amount.

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 terms and provisions would be established by SoCal prior to the public offering. The price and interest rate of the securities would be that specified by the qualified bid for the Debt Securities which provides SoCal with the lowest cost of money.

The terms and provisions of the Debt Securities issued in each financing sold through negotiated public offering, the price, and interest rate 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 sold through negotiated private transactions, 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 sold 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 transactions. The financings would be sold at any time, or from time to time, within two years from the date of this decision and, together with debt and financings in domestic capital markets, would provide SoCal with up to $200,000,000 aggregate principal amount of debt capital.

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 Debt Securities. However, in order to assure, among other things, 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 also be sold 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 debentures, notes, or other evidences of its indebtedness. 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' Debt Securities. The securities so issued by SoCal may also be pledged as security for the debt securities 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 securities that are issued. The equity capitalization may be invested by the subsidiary or affiliate in interest bearing bank deposits, or 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, and 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 would be determined by negotiations among SoCal, SoCal's subsidiary or affiliate (if any), and the underwriters selected for the proposed offering, or the lenders, or investors to which the securities are to be issued.

Competitive Bidding Requirements

Rules adopted by this Commission in D.38614 dated January 15, 1946 in Case 4751, as amended by D.49941, D.75556, and D.81908, generally require California public utilities to obtain competitive bids for the purchase of their debt securities. The rules 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 flexibility that would be afforded by this exemption would enable it to meet its debt financing requirements on the most favorable terms available.

Domestic Financings

Competitive bidding markets for public utility securities are well established in the United States. SoCal states, however, that from time to time, financing sold through negotiated public offerings or negotiated private transactions may provide public utilities with more favorable terms and provisions at a lower cost for their debt securities than financing sold through competitive bidding. SoCal believes these conditions may exist, from time to time, during the period of the financings contemplated by the application and believes compelling reasons exist for permitting SoCal to finance through negotiated public offerings and negotiated private transactions.

SoCal points out that financing sold through competitive bidding requires that a fixed date and fixed terms for a public offering be established 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 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. Changes in the terms and provisions as well as the price and interest rate of the offering may also be made more rapidly. SoCal believes that this flexibility to vary the timing, terms and provisions, price, and interest rate of a financing is particularly important when trying to match the repurchase of high coupon bonds to the issuance of refunding debt securities, especially so, during periods of market volatility.

SoCal also states that 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 public offering, the managing underwriter has the entire investment banking community from which to choose in forming an underwriting group and selling syndicate. It is thus 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.

Furthermore, if SoCal is successful or has reason to believe it will be successful in obtaining substantial amounts of its outstanding high-coupon bonds, the size of the refunding issue may be significantly greater than that which the market can accommodate through the competitive bidding process. Under such circumstances, SoCal's ability to obtain favorable interest rates through competitive bidding may be hindered because of the segregation of the bidding groups and their inability to place the refunding issue at favorable rates. In comparison, a negotiated public offering provides for the combined efforts of a large group of underwriters. Additionally, financing through negotiated underwriting may also help insure a successful offering through the preselling efforts of the underwriters. In a negotiated public offering, 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 much less extensive in competitive bidding because of uncertainty of prospective bidders as to whether their bid will be successful.

SoCal alleges that financing through negotiated private transactions may provide more flexibility to vary the timing and terms and provisions of a financing than does financing through competitive bidding or negotiated public offerings. This results from the absence of registration proceedings necessary for a public offering and, in many cases, the absence of rating agency proceedings. 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 believes that it may be possible to obtain more favorable terms and provisions at a lower cost than could be obtained in a public offering either through competitive bidding or negotiated public offerings.

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, 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 financing (within the constraints set forth in the 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.

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 not less than 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 and the terms and provisions of the securities submitted for bids, all without republishing an invitation for bids.

In D. 91984 dated July 2, 1980 for San Diego Gas and Electric Company 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 effectiveness of the underwriting will not serve as compelling reasons, individually or collectively, for granting an exemption from the compeitive bidding rule.

We are persuaded that an inflexible adherence to the requirements of the competitive bidding rule may not be in the public interest, given SoCal's need for large amounts of capital. We are frankly uncertain whether strict adherence to the competitive bidding rule would prove beneficial in the instance. Consequently, for this application only, we will authorize SoCal to proceed on either competitive bidding, negotiated public offerings, or private placements, according to SoCal's estimation of where the most favorable opportunity lies.

If SoCal issues and sells its Debt Securities by means of negotiated public offerings or negotiated private placements in the domestic or foreign 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 SoCal 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 apply the net proceeds from its proposed financings to refund or to reimburse its treasury for monies expended for the refunding of all or a portion of one or more series of its outstanding First Mortgage Bonds (including any premiums required for the repurchase of the bonds), as set forth on Exhibit E of the application. Refundings of outstanding bonds will be made only to the extent that any of these bonds are more costly to SoCal than the expected costs of the proposed debt financings under anticipated market conditions. To the extent that SoCal obtains debt capital in excess of the amount needed to refund or to reimburse its treasury for amounts expended in refunding outstanding First Mortgage Bonds, SoCal intends to use the excess proceeds (if any) to pay for, or to reimburse its treasury for amounts expended for, capital additions. SoCal anticipates that the excess proceeds will not exceed $5,000,000. The refunding would be accomplished through purchases of SoCal's outstanding First Mortgage Bonds either in the open market or under a tender offer. SoCal proposes to account for any premiums paid in connection with the refunding and the unamortized costs of the refunded securities by amortizing the amounts over the life of the Debt Securities.

The Commission's Revenue Requirements Division has reviewed SoCal's application and its proposed sale of securities for the purpose of refunding all or a portion of one or more series of its outstanding First Mortgage Bonds to the extent these bonds are more costly to SoCal than the anticipated costs of the proposed financings. The Division has concluded that SoCal's proposed financings are necessary to provide funds for the purposes set forth in its application. The Division has no objection to the proposed financings or the accounting method proposed for amortizing the unamortized costs associated with and the premiums paid for the refunded securities over the life of the new Debt Securities.

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 the 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 financing may be available to SoCal through negotiated public offerings or negotiated private placements 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 sold; the method by which each is sold; the terms and provisions, price, and interest rate 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 sold through negotiated public offerings and 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 publication of an invitation for bids and the opening of bids for SoCal's debt financings sold 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; 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 or issues are for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the security issue or issues may not be charged to operating expenses or income.

The following order will 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.

ORDER

IT IS ORDERED that:

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 $200,000,000, at any time or from time to time, within two years from the date of this decision, 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 and may make these sales under a shelf registration statement.

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

3. SoCal may guarantee the debt securities or other evidences of indebtedness issued by its subsidiaries, or affiliates, in the financings sold 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 sold; the method by which each is sold; the terms and provisions, price, and interest rate of the Debt Securities or other evidences of indebtedness, in the manner and subject to the limitations set forth in the application.

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

6. SoCal's financings through competitive bidding may be sold 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. SoCal may amortize the unamortized costs associated with the refunded securities and the premiums paid for the refunded securities over the life of the new Debt Securities.

9. Within 30 days after awarding the contract for the sale of the 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 SoCal based on the price and interest rate.

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

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

market, 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 SoCal and its ratepayers.

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

13. SoCal shall use the net proceeds from the sale of its Debt Securities for the purposes set forth in the application.

14. The authority granted by this order to issue Debt Securities or other evidences of indebtedness will become effective when SoCal pays $11,000, the fee set by PU Code Section 1904(b) after taking credit for the contemplated retirement of $70,000,000 aggregate principal amount of SoCal's 15% First Mortgage Bonds, Series N, due February 1, 2001; $60,000,000 of 17-3/8% First Mortgage Bonds, Series O, due September 15, 2001; and $60,000,000 of 15-3/4% First Mortgage Bonds, due April 1, 1982. In all other respects, this order is effective today.

Dated NOV 2 1983 at San Francisco, California.

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

Commissioner Donald Vial, being necessarily absent, did not participate.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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By

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

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director