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Decision 84 01 043 JAN 19 1984 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company, for Authorization to Issue, Sell and Deliver one or more series of its First Mortgage Bonds, Debentures, Notes and/or other Evidences of Indebtedness in an Aggregate Principal Amount Not to Exceed $64,500,000 or, in the alternative, Guarantee Obligations of Another in respect of the Issuance of Securities, pursuant to an Agreement to be Executed and Delivered in connection therewith; Execute and Deliver one or more Supplemental Indentures; Sell Utility Plant; and for an Exemption from the Competitive Bidding Requirements of the California Public Utilities Commission.	Application 83-11-45 (Filed November 21, 1983)

OPINION

San Diego Gas & Electric Company (SDG&E) requests authority, under Public Utilities (PU) Code Sections 816 through 830 and 851, for the following:

1. To issue, sell, and deliver to the California Pollution Control Financing Authority (Authority) one or more series of SDG&E's First Mortgage Bonds, debentures, notes, and/or other evidences of indebtedness (collectively referred to as Debt Securities) in an aggregate principal amount up to $64,500,000 of tax-exempt pollution control bond financing or, in the alternative, to unconditionally or otherwise secure the Authority's

obligations in respect to its issuances of debt under the terms of an agreement to be executed by SDG&E and the Authority;

2. To sell to the Authority certain pollution control facilities located at the San Onofre Nuclear Generating Station;

3. To execute and deliver one or more supplemental indentures; and

4. To have each proposed series of SDG&E's tax-exempt pollution control Debt Securities exempted from the Commission's competitive bidding requirements.

<u>Summary of Decision</u>

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

Notice of the filing of the application appeared on the Commission's Daily Calender of November 23, 1983. No protests have been received.

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

In its Statement of Income and Retained Earnings for the eight months ended August 31, 1983, SDG&E reports it generated total operating revenues of $997,312,235 and net income of $115,145,193 as shown in the application as part of Exhibit A.

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

Assets	Amount
Net Utility Plant	$2,251,856,229
Other Plant and Property Investments	36,985,872
Current and Accrued Assets	318,467,251
Deferred Debits	53,906,535
Total	$2,661,215,887
Liabilities and Equity	
Common Equity	$ 887,523,448
Preferred/Preference Stock	265,800,000
Long-Term Debt	927,854,874
Current and Accrued Liabilities	397,584,044
Deferred Credits and Reserves	182,453,521
Total	$2,661,215,887

As of August 31, 1983, SDG&E had outstanding short-term obligations totaling $206,758,988. This total consisted of commercial paper and bank loans in the amount of $127,500,000; $29,000,000 of bankers' acceptances (used to finance fuel oil, natural gas, and other goods and commodities); $47,058,988 covering the current portion of long-term debt payable within 12 months; and $3,200,000 in sinking fund requirements for preferred stock.

SDG&E proposes to engage in a California pollution control facility financing with the Authority, a political subdivision of the State of California, in order to obtain the benefits of tax-exempt financing for the pollution control facilities located at SDG&E's San Onofre Nuclear Generating Station, Unit 3, and described in detail in Exhibit D of the application. SDG&E currently contemplates that the proposed financing would be structured as described below:

A. Issuance of Pollution Control Bonds

The Authority would issue and sell one or more series of its bonds, notes, debentures, or other securities (to be collectively referred to as Pollution Control Bonds) in an aggregate principal amount of up to $64,500,000 to one or more underwriters or by private placement. If the Pollution Control Bonds are sold to one or more underwriters, it is expected that the underwriters would ultimately market them to the general public.

B. Financing Agreement between SDG&E and Authority

Concurrently with the sale and delivery of the Pollution Control Bonds, SDG&E would enter into a loan agreement, an installment sale agreement, financing agreement, or other security agreement with the Authority, which SDG&E has stated, in the application, will be furnished to the Commission when executed. If a loan agreement is entered into, the Authority would lend and SDG&E would borrow an aggregate amount of up to $64,500,000. If an installment sale agreement is entered into, SDG&E would sell to the Authority a portion of the pollution control facilities, located at its San Onofre Nuclear Generating Station, at a price equal to SDG&E's estimated cost of acquisition or construction for the facilities. The Authority would reconvey title to the facilities to SDG&E in consideration of SDG&E's obligation to pay the amounts as may be required to pay principal of, premium (if any), the interest on the Pullution Control Bonds, and all expenses attendant thereto. SDG&E's obligations under a loan agreement or an installment sale agreement would be secured by SDG&E's Debt Securities as described below. The Authority would obtain the money to make the loan, or buy the completed facilities, and to construct, or acquire, the remaining facilities from the proceeds of the sale of the Pollution Control Bonds.

SDG&E states that substantially all of the proceeds from the issuance of the Pollution Control Bonds will be used to acquire, or construct, pollution control facilities within the meaning of the Internal Revenue Code, and it is expected that the interest payable on the Pollution Control Bonds will be exempt from all present federal and California state income taxes under existing statutes, regulations, court decisions, and rulings.

Since the interest payable on the Pollution Control Bonds is anticipated to be exempt from present federal and California state income taxes, the Pollution Control Bonds will be sold at an annual interest rate substantially less than would be realized if SDG&E were to issue and sell its own taxable debt obligations. While the actual savings would be highly dependent on market conditions and maturities, SDG&E has stated it believes that the tax-exempt Pollution Control Bonds could be sold at a rate of approximately 200 to 400 basis points below the rate for a comparable issue of SDG&E's own taxable debt issues.

C. Issuance of SDG&E's Debt Securities or Guarantees

Concurrently with the sale and delivery of the Pollution Control Bonds, SDG&E would issue and deliver to the Authority, in consideration of the Authority's obligations set forth above, its Debt Securities in an aggregate principal amount of up to $64,500,000, (the terms and conditions of these Debt Securities would be consistent with the terms and conditions of the Pollution Control Bonds) or would unconditionally guarantee or otherwise secure (by letters of credit, insurance policies, or other security arrangements) the Authority's obligations in respect of the Pollution Control Bonds. All rights, title, and interest of the

Authority in SDG&E's Debt Securities would be assigned to a trustee under an indenture under which the Pollution Control Bonds would have been issued, as security for the purchasers of the Pollution Control Bonds.

Use of Floating Rate Pollution Control Bonds

SDG&E contemplates that the Pollution Control Bonds will be issued in the form of long-term fixed rate securities. However, under certain market conditions, SDG&E states that it may be advantageous for one or more series of the Pollution Control Bonds to be issued in the form of floating rate short-term demand bonds, or notes, or some other variable interest rate debt instrument. SDG&E anticipates that this variable rate financing would be structured substantially as follows, with changes as market conditions might dictate. The Pollution Control Bonds would be nominally long-term instruments but would carry a short-term interest rate because of the existence of a periodic "put" option. The holders of the Pollution Control Bonds would have the right to require that the Pollution Control Bonds be redeemed on certain periodic dates, generally at 100% of the principal amount plus accrued interest. A Remarketing Agent would then remarket those Pollution Control Bonds which had been redeemed. Because the interest rate on the Pollution Control Bonds would be periodically reset based on a short-term tax-exempt index, any redeemed Pollution Control Bonds could generally be remarketed at their full principal amount.

SDG&E states that the floating rate Pollution Control Bonds might be backed by a letter of credit if it provides more favorable terms. To secure the letter of credit, SDG&E would enter into a reimbursement agreement. SDG&E would have the option at a certain time or times to change from a floating rate to a fixed rate. This financing method, which is substantially similar to that authorized in the Commission's recent Decision (D.) 83-09-012 dated September 7, 1983 in Application (A.) 83-07-55 (Sierra Pacific Power Company), would be beneficial to SDG&E and its ratepayers by providing the potential of long-term financing at short-term rates, while also providing an option to lock in a particular rate if interest rates start to rise.

Savings to Benefit Ratepayers

Since the interest payable on the Pollution Control Bonds is anticipated to be exempt from present federal and state income taxes, the Pollution Control Bonds will be sold at an annual interest rate substantially less than would be realized if SDG&E

were to issue and sell taxable debt obligations. In order for SDG&E to take advantage of the favorable interest rates applicable to the Pollution Control Bonds, SDG&E must issue its Debt Securities to the Authority. The interest rates payable by SDG&E will be the same as those required by the Authority's tax-exempt bonds. The lower interest rates on SDG&E's Debt Securities for pollution control indebtedness will result in a lower embedded cost of debt than if SDG&E were to issue taxable debt to finance the pollution control facilities. This lower embedded cost of debt will be reflected in a lower overall cost of capital and a reduced revenue requirement which will be passed on to SDG&E's ratepayers in future rate proceedings.

Sale of Utility Plant

If an installment sale agreement is entered into, SDG&E would convey title to the facilities, subject to the lien of its Trust Indenture, to the Authority. The transfer of title to these facilities would be made for the purpose of complying with the applicable provisions of California Health and Safety Code Sections, and title to these facilities would be reconveyed to SDG&E as partial consideration for SDG&E's issuance and sale of its Debt Securities to the Authority. The operation and control of the facilities conveyed to the Authority would remain with SDG&E or its agent at all times.

Initial Intermediate Debt

SDG&E asserts that it presently anticipates that the Authority will issue long-term debt obligations to finance the related pollution control facilities. However, under certain market conditions, SDG&E believes that the Authority may be able to issue intermediate term obligations at interest rates which, combined with subsequent bond issues, would be more favorable to the Authority and therefore to SDG&E and its ratepayers, than interest rates available on an initial issuance of long-term debt. SDG&E has stated that if the Authority experiences these market conditions, SDG&E would like to utilize the authority requested in its application to issue its Debt Securities with terms consistent with the Authority's initial intermediate term debt and subsequently, apply for Commission authorization to issue refunding debt at, or prior to, the maturity of the intermediate term debt. We concur with and approve of SDG&E's plans regarding the issuance of intermediate term debt.

Description of SDG&E's Debt Securities

SDG&E's Debt Securities may take the form of one or more series of its First Mortgage Bonds, debentures, notes, and/or other evidences of indebtedness. If these Debt Securities are evidenced by SDG&E's First Mortgage Bonds, these Bonds would be issued under a Supplemental Indenture, which would be substantially similar in form to the Supplemental Indentures previously issued by SDG&E, supplementing SDG&E's Mortgage and Deed of Trust to the Bank of California, N.A., as Trustee, dated July 1, 1940, as previously supplemented and amended by thirty Supplemental Indentures. These Supplemental Indentures would provide for the terms and conditions necessary to secure SDG&E's obligations to the Authority.

SDG&E's Debt Securities would be substantially consistent with the terms of the Pollution Control Bonds with respect to principal amount, maturity, interest rate, payment dates, place, and manner of payment, call protection, and other redemption, or repurchase provisions including sinking fund (if any) deemed necessary and advisable by SDG&E. The principal amount of the Debt Securities shall not exceed in the aggregate $64,500,000 for all Supplemental Indentures issued hereunder, and would have other terms and conditions which are substantially consistent with the terms and conditions of the Pollution Control Bonds.

Request for Exemption from Competitive Bidding

SDG&E seeks an order from this Commission granting an exemption of the proposed issues and sales of its Debt Securities for Pollution Control Facilities from the Commission's competitive bidding rule established by D.38614 dated January 15, 1946 in Case 4751 as amended by D.49941 and D.75556. These decisions contemplate that under appropriate circumstances the Commission will not require competitive bidding. SDG&E states that in order for it to take advantage of the favorable interest rates applicable to the Pollution Control Bonds, it must issue and deliver its Debt Securities to the Authority or, to the Authority's account as security for, or as the means of payment of SDG&E's obligations under its agreement with the Authority.

Thus, because of the statutory structure of the Authority's pollution control financing mechanisms, competitive bidding for SDG&E's Debt Securities is not possible. The Commission has previously recognized this unique method of financing by exempting pollution control related debt issues from the competitive bidding requirements. We believe an exemption from the competitive bidding requirements is also appropriate in this case.

Use of Pollution Control Bond Proceeds

SDG&E intends to use the net proceeds from the issuance and sale of the Pollution Control Bonds by the Authority for the acquisition of property and for the construction, completion, extension, or improvement of SDG&E's facilities, and/or to reimburse SDG&E for moneys actually expended from its treasury for such purpose. The facilities to be financed include a portion of SDG&E's San Onofre Nuclear Generating Station, Unit 3, consisting of certain pollution control facilities as described in Exhibit D of the application.

Pollution Control Financing Authority Proceedings

On October 31, 1983, SDG&E filed an application with the Authority requesting initial approval of the pollution control financing described in the application. On November 16, 1983, SDG&E's request for this approval was considered at a meeting of the Authority and a favorable initial resolution was adopted. SDG&E is now seeking expeditious approval of its application in order to take advantage of the tax-exempt pollution control financing.

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

	August 31, 1983	Pro Forma
Long-Term Debt	39.3%	45.2%
Short-Term Debt	9.2	1.1
Total	48.5	46.3
Preferred/Preference Stock	11.9	9.5
Common Equity	39.6	44.2
Total	100.0%	100.0%

1. The proposed issuance and sale of SDG&E's Debt Securities up to the aggregate principal amount of $64,500,000 for pollution control facilities;

2. The proposed issuance and sale of up to $135,000,000 aggregate principal amount of First Mortgage Bonds, authorized but unissued under D.83-06-097 dated June 29, 1983 in A.83-05-47, 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 $75,000,000 of the bonds and $60,000,000 of the preference stock would be refunded;

3. The issuance and sale of $150,000,000 of First Mortgage Bonds, authorized under D.83-05-057 dated May 18, 1983 in A.83-03-32, as security for the issuance and sale of $150,000,000 in Industrial Development Bonds by the City of San Diego for SDG&E which produced net proceeds of approximately $144,557,000;

4. The issuance and sale of 5,000,000 shares of SDG&E's Common Stock, $5 par value, at the assumed price of $20 per share, estimated to produce net proceeds of $96,000,000 (D.82-12-070 dated December 15, 1982 in A.82-10-26);

5. The issuance and sale of up to 3,980,516 shares of SDG&E's Common Stock, $5 par value, authorized but unissued under its Common Stock Investment Plan estimated to produce net proceeds of $76,426,000 at the assumed price of $20 per share (D.83-05-009 dated May 4, 1983 in A.83-03-37);

6. The issuance and sale of up to 1,916,793 shares of SDG&E's Common Stock, $5 par value, authorized but unissued under its Tax Reduction Employee Stock Ownership Plan estimated to produce net proceeds of $38,336,000 at the assumed price of $20 per share (D.82-09-014 dated September 8, 1982 in A.82-07-50);

7. The issuance and sale of up to 1,553,142 shares of SDG&E's Common Stock, $5 par value, authorized but unissued under its Employee Savings Plan estimated to produce net proceeds of $31,063,000 at the assumed price of $20 per share (D.92805 dated March 12, 1981 in A.60228);

8. The issuance and sale of up to 1,350,000 shares of Preference Stock (Cumulative) authorized but unissued estimated to produce net proceeds of $35,640,000 (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);

9. The issuance of $1,000,000 in promissory notes authorized but unissued (D.82-06-057 dated June 15, 1982 in A.82-04-13); and

10. The transfer of $47,059,000 from long-term debt to short-term debt covering the maturing portion of long-term debt and the payment of $177,759,000 of short-term debt from current operations.

SDG&E's construction budget for calendar years 1983 and 1984 amounts to approximately $667,000,000, of which approximately $239,000,000 has been spent as of August 31, 1983. Major classifications of the total budgeted construction (including allowances for funds used during construction) is summarized as follows:

Description	1983	1984
Electric Production	$152,000,000	$101,000,000
Electric Transmission	173,000,000	44,000,000
Electric Distribution	72,000,000	84,000,000
Gas Production, Transmission, and Distribution	17,000,000	19,000,000
Steam Department	0	0
Common Plant	3,000,000	2,000,000
Total	$417,000,000	$250,000,000

SDG&E reports it has unreimbursed construction as of August 31, 1983 totalling $305,075,917.

The Commission's Revenue Requirements Division has reviewed SDG&E's construction budget for 1983 and 1984 and finds that the financing is necessary to fund the planned pollution control construction expenditures. The Commission is not finding that the construction is necessary and reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

The Commission's Revenue Requirements Division has analyzed SDG&E's cash requirements forecast for 1983 and 1984, submitted to the Commission under a letter dated December 5, 1983, and the Division has concluded that internally generated funds will provide about 33% of the capital requirements for 1983 and 48% for 1984. The Division concludes that the proposed Debt Securities will be necessary to help meet forecasted cash requirements.

Findings of fact

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

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

3. SDG&E's participation in the proposed Pollution Control Bond financing, including the issuance of its own Debt Securities, guarantees, and other security enhancements in connection with the Pollution Control Bond financing, would be for proper purposes.

4. The Pollution Control Bond financing, including the issuance of SDG&E's Bonds, guarantees, and other security enhancements in connection with the Pollution Control Bond financing, would not be adverse to the public interest.

5. The money, property, or labor to be procured or paid for by the proposed Pollution Control Bond financing or issuance of SDG&E's Debt Securities are reasonably required for the purposes specified in the application.

6. 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 security issues are for lawful purposes and the money, property, or labor to be obtained by them are required for these purposes. Proceeds from the security 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 proceed expeditiously with the Pollution Control Bond financing.

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, may, for the purposes set forth in this proceeding, issue, sell, and deliver to the California

Pollution Control Financing Authority (Authority) one or more series of its First Mortgage Bonds, debentures, notes and/or other evidences of indebtedness (Debt Securities) in an aggregate principal amount up to $64,500,000, with all the issues and sales of Debt Securities being at the price and upon the terms and conditions substantially consistent with those set forth, or contemplated, in the application or, in the alternative, unconditionally guarantee or otherwise secure the Authority's obligations, by means of letters of credit, insurance policies, or other security arrangements, in respect of the Authority's issuances of debt under the terms of one or more agreements to be executed by SDG&E and the Authority.

2. SDG&E may sell to the Authority certain pollution control facilities located at SDG&E's San Onofre Nuclear Generating Station in accordance with the terms and conditions set forth in, or contemplated by, the application.

3. SDG&E may execute and deliver one or more Supplemental Indentures on terms and conditions contemplated under the application.

4. SDG&E's Debt Securities are exempted from the Commission's competitive requirements as set forth in D.38614 dated January 15, 1946 as amended in C.4761.

5. SDG&E shall apply the net proceeds from the issuance and sales of the Pollution Control Bonds for the purposes set forth in the application.

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

7. As soon as available, SDG&E shall file with the Commission three copies of the official statement pertaining to the Pollution Control Bond financing.

8. The authority granted by this order to issue Debt Securities will be effective when SDG&E pays $38,250, the fee set by PU Code Section 1904(b). In all other respects this order is effective today.

Dated JAN 19 1984 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
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JAN 24 1984
$38,250.1
By

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

Joseph E. Bodovitz, Executive Director