

Decision No. 87226

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS &)
ELECTRIC COMPANY for authority to)
enter into a bank credit agreement)
and to issue its eight-year)
promissory note in the principal)
amount of \$40,000,000.)

Application No. 57207
(Filed April 7, 1977)
and Amendment
(Filed April 13, 1977)

O P I N I O N

San Diego Gas & Electric Company seeks an order granting it an exemption from the Commission's competitive bidding rule, and authorizing it (a) to issue its promissory note, and (b) to execute and deliver a bank credit agreement.

Applicant is a California corporation engaged principally in the business of providing electric service in portions of Imperial and Orange Counties, and electric, gas and steam service in portions of San Diego County. The utility reports that as of February 28, 1977, its uncapitalized construction amounted to \$115,157,048, and the unexpended balance of its capital budget amounted to \$552,813,000.

The application indicates that, pursuant to a bank credit agreement, the First National Bank of Chicago, on its own behalf and on behalf of other banks, would provide a loan not exceeding \$40,000,000. The loan would be evidenced by an eight-year promissory note, which note would bear interest at 8-3/4% per annum for the first seven years and 120% of said bank's prime interest rate for the eighth year, and would be amortized during the last three years of its term in three equal installments. The proceeds of the loan would be used to reimburse its treasury for capital expenditures.

According to the application, the utility recently considered a \$120,000,000 project financing for the construction of its Encina Unit 5, which financing was to include \$40,000,000 at a fixed-rate term for seven years and \$80,000,000 at a floating rate tied to the prime interest rates. Due to declining interest coverages the negotiations were aborted. Applicant, however, was able to salvage the fixed-rate portion of the financing proposal.

An affidavit of William R. Vogelsang, Vice President-Financial Services of San Diego Gas & Electric Company, attached to the application as Exhibit D, enumerates the justification for exemption from competitive bidding requirements as follows:

"(4) That I handled the negotiations with our underwriters Merrill Lynch, Pierce, Fenner & Smith, Incorporated, and Blyth Eastman Dillon & Co., Incorporated, in developing a plan to solicit major financial institutions to obtain proposals for a project financing for the construction of Encina Unit 5.

"(5) That our underwriters obtained responses to their solicitations from nine major financial institutions: namely, Bank of America National Trust and Savings Association; Chase Manhattan Bank, N.A.; Chemical Bank; Continental Illinois National Bank and Trust Company of Chicago; First National Bank of Chicago; Manufacturers Hanover Trust Company; Marine Midland Bank, Morgan Guaranty Trust Company; and Security Pacific National Bank.

"(6) That each such proposal was carefully analyzed and compared with each other. That from such analysis and comparison, I concluded that the best proposal for project financing was submitted by First National Bank of Chicago, which proposal included a portion of the financing at a fixed-rate term, with a balance at a floating rate, tied to the bank's prime interest rate.

"(7) That during the course of our negotiations, we discovered that the total amount of the project financing was subject to the interest coverage test under our Debenture Indentures, and that, because of declining earnings, we were unable to meet such coverage test.

"(8) That after aborting the project financing proposal, we were offered the ability to retain the fixed-rate term portion of \$40,000,000.

That such term loan was the best of all that we had reviewed from each of the major banks that submitted a proposal, and that it afforded us the opportunity to consummate such a loan prior to April 30, 1977, while we could still meet our interest coverage test.

"(9) That comparing the terms of such loan with our most recent issue of First Mortgage Bonds, which carried a coupon rate of 8-3/4% and were priced to yield 8.85%, and are now being marketed to yield 8.98%, I am of the opinion that a seven-year term at 8-3/4% with an eighth year at 120% of the bank's prime interest rate, is very favorable for a company with a credit of BBB/Baa.

"(10) That the Bank of America and Manufacturers Hanover Trust Company, who participate in our bank credit line, have declined to participate in a fixed-rate term loan, as the pricing was not considered to be competitive with their price structure.

"(11) That the negotiations already undertaken with the First National Bank of Chicago are sufficiently far along to make it possible to consummate this transaction by April 30, 1977.

That commencing negotiations for a \$40,000,000 term loan from any other financial institution would not afford us the opportunity to consummate such a transaction by the April 30, 1977 deadline.

"(12) That until the Company's earnings position is substantially improved, no further long-term financing will be possible after April 30, 1977.

"(13) That the Company's construction program is such that it is in the best interest of the Company to consummate this transaction."

After consideration of the verified application the Commission finds that:

1. Applicant is a California corporation operating as a public utility under the jurisdiction of this Commission.
2. Applicant's First Mortgage Bonds are presently rated BBB by Standard & Poor's Corporation and Baa by Moody's Investors Service, Inc.
3. An interest rate of 8-3/4% per annum for the first seven years and 120% of bank's prime interest rate for the eighth year for the proposed note is more favorable than applicant could obtain on its First Mortgage Bonds with an eight-year maturity at competitive bidding.
4. The sale of the proposed note should not be required to be through competitive bidding.
5. The proposed note issue is for a proper purpose.
6. Applicant has need for external funds for the purpose set forth in this proceeding.
7. The proposed bank credit agreement would not be adverse to the public interest.
8. The money, property or labor to be procured or paid for by the issue of the note herein authorized is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

9. There is no known opposition and there is no reason to delay granting the relief requested.

On the basis of the foregoing findings we conclude that the application, as amended, should be granted. A public hearing is not necessary. The authorization herein granted is for the purpose of this proceeding only, and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. The issue by San Diego Gas & Electric Company of its eight-year note in the principal amount of not exceeding \$40,000,000 pursuant to a bank credit agreement with the First National Bank of Chicago, on its own behalf and on behalf of other banks, is hereby exempted from the Commission's competitive bidding rule set forth in Decision 38614, dated January 15, 1946, as amended, in Case 4761.
2. San Diego Gas & Electric Company may execute and deliver a bank credit agreement in substantially the same form as Exhibit 1 attached to the amendment to the application.
3. San Diego Gas & Electric Company, for the purpose specified in this proceeding, may issue its note in the principal amount of not exceeding \$40,000,000, which note shall be in substantially the same form as Exhibit A attached to the amendment to the application.
4. San Diego Gas & Electric Company shall file with the Commission the report required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

5. This order shall become effective when San Diego Gas & Electric Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$26,000.

Dated at San Francisco, California, this 19th day of APRIL, 1977.

President
William J. Quinn

Vernon L. Sturgeon

Richard D. Lippold
Commissioners

Commissioner Robert Batinovich, being necessarily absent, did not participate in the disposition of this proceeding.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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BY *[Signature]*