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Decision No. 87867 SEP 20 1977

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA)
GAS COMPANY for Authority to Issue)
and Sell Not Exceeding \$50,000,000)
First Mortgage Bonds, Series L,)
Mortgage its Properties and to)
Execute and Deliver a Supplemental)
Indenture)

Application No. 57491
(Filed August 2, 1977)

O P I N I O N

Southern California Gas Company (SoCal) a California Corporation, requests authority to execute and deliver a Supplemental Indenture and to issue and sell at competitive bidding not exceeding \$50,000,000 aggregate principal amount of its First Mortgage Bonds, Series L, Due 1997.

SoCal is a subsidiary of Pacific Lighting Corporation, and is engaged principally in purchasing, distributing and selling natural gas to customers throughout most of Southern California and portions of central California.

SoCal proposes to issue and sell the Series L Bonds for cash at an amount which is not less than 99% of the principal amount, plus accrued interest, if any, at a price and interest rate to be determined by the successful bid.

The Series L Bonds would be secured by an existing indenture as previously amended and supplemented and as further amended and supplemented by a proposed Supplemental Indenture, which is attached to the application as Exhibit A. The Supplemental Indenture provides, among other things, that the Series L Bonds are subject to redemption at any time prior to

maturity at the option of the company, either in whole or in part, or through the operation of a Renewal Fund (provision for depreciation), at the "regular" redemption price or through operation of a sinking fund at the "special" ^{1/} redemption price in accordance with the terms and provisions set forth in the Supplemental Indenture. In spite of the foregoing, none of the bonds may be redeemed prior to October 1, 1982 directly or indirectly from the proceeds of or in anticipation of any refunding operation involving the incurring of debt which has an interest cost to SoCal of less than the interest cost of the Series L Bonds.

SoCal's capitalization ratios at June 30, 1977, and as adjusted to give effect to the proposed bond issue, are summarized from the application as follows:

	<u>June 30, 1977</u>	<u>Pro Forma</u>
Long-term debt	47.00%	49.28%
Preferred stock	2.29	2.19
Common stock equity	<u>50.71</u>	<u>48.53</u>
Total	<u>100.00%</u>	<u>100.00%</u>

^{1/} The terms "regular" and "special" redemption prices are used in connection with bond redemption provisions. A bond issue may have two sets of prices at which it can be paid off before maturity. One provision applies if the company is forced to reduce debt in compliance with the terms of the indenture, such as for sinking fund purposes. It is referred to as the sinking fund call or special redemption provision. The other call is referred to as the regular or optional redemption provision and may be used at the company's option. Childs, John F., Long-Term Financing (Englewood Cliffs: Prentice-Hall, Inc., 1961) p.97.

The proceeds from the sale of Series L Bonds, other than accrued interest which is to be used for general corporate purposes, would be applied toward the following:

A. Retirement of bonds through operation of the sinking fund provision.	\$15,823,000
B. Retirement of bonds at maturity.	7,640,000
C. Reimbursement of the treasury for a portion of the funds expended for construction.	<u>26,537,000</u>
Total	<u>\$50,000,000</u>

SoCal's plant additions for the year 1976 were \$112,937,000. SoCal indicated by letter dated August 22, 1977, that plant additions in 1977 are estimated to be \$76,500,000. Details of this estimate are as follows:

	<u>1977</u>
	(Thousands of Dollars)
Underground Storage Plant	\$ 6,700
Transmission Plant	4,600
Distribution Plant	21,900
New Business Plant	38,000
Land and Building Construction	4,100
Furniture and Equipment	<u>1,200</u>
Total	<u>\$ 76,500</u>

SoCal's letter also indicated that as of July 31, 1977, the actual construction expenditures were approximately \$40,300,000. The balance of the funds for the estimated construction in 1977 are expected to be derived from internally generated funds, and from short-term borrowings from its parent, Pacific Lighting Corporation.

The Finance Division of the Commission's staff has analyzed SoCal's cash requirements provided to the staff in SoCal's letter of August 22, 1977, and determined that internally generated funds will provide 55 percent of the capital expenditures estimated for 1977. The Finance Division has concluded that the proposed bond issue will be necessary to help meet cash requirements in 1977.

The Operations Division of the Commission's staff has reviewed SoCal's construction program, for the year 1977, and has concluded that the expenditures are not unreasonable.

After consideration the Commission finds that:

1. The proposed Supplemental Indenture would not be adverse to the public interest.
2. The proposed bond issue is for proper purposes.
3. Southern California Gas Company has need for external funds for the purposes set forth in the application.
4. The money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition to SoCal's application and no reason not to grant the authority requested effective when SoCal has paid the prescribed fee. The Commission therefore concludes that the application should be granted. A public hearing is not necessary. The action taken herein is for the purposes 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. Southern California Gas Company may execute and deliver a Supplemental Indenture substantially in the form as Exhibit A, attached to the application.

2. Southern California Gas Company may issue and sell not exceeding \$50,000,000 aggregate principal amount of its First Mortgage Bonds, Series L, in accordance with the terms and provisions of a Bond Purchase Agreement substantially in the form as Exhibit B, attached to the application.

3. Southern California Gas Company may issue and sell the Series L Bonds for cash at an amount which is not less than 99% of the principal amount thereof, plus accrued interest, if any, pursuant to the Commission's competitive bidding procedures, and at the price offered in a bid which shall provide the lowest annual cost of money to SoCal calculated in the manner provided in the Statement of Terms and Conditions Relating to Bids, a copy of which is attached to the application as a part of Exhibit B.

4. Southern California Gas Company shall apply the proceeds from the sale of said bonds to the purposes referred to in the application.

5. Promptly after awarding the contract for the sale of said bonds, Southern California Gas Company shall file a written report with the Commission showing, as to each bid received, the name of the bidder, the price, the interest rate and the cost of money to the company based on such price and interest rate.

6. As soon as available, Southern California Gas Company shall file with the Commission three copies of its Prospectus pertaining to said bonds...

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7. Within one month after such issue and sale Southern California Gas Company shall file with the Commission a statement, in lieu of a report under General Order No. 24-B, disclosing the purposes for which the bond proceeds were used.

8. This order shall become effective when Southern California Gas Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$27,180.

Dated at San Francisco, California, this 20th
day of SEPTEMBER 1977.

Robert Bateman
President
William S. Quinn
Bernard J. Lattin
James D. Swale
Walter L. Deibel
Commissioners

