

ORIGINAL

Decision No. 88474 FEB 7 1978

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS &)
 ELECTRIC COMPANY to issue and sell)
 not exceeding 1,200,000 shares of)
 its Preference Stock (Cumulative),)
 without par value.)

Application No. 57740
 (Filed December 13, 1977)

O P I N I O N

San Diego Gas & Electric Company (SDG&E) requests authority to issue and sell not exceeding 1,200,000 shares of its Preference Stock (Cumulative), without par value.

SDG&E is a California corporation engaged principally in the business of providing electric service in portions of San Diego, Imperial, and Orange Counties. For the twelve months ended October 31, 1977, the utility reported total operating revenues of \$498,320,000 and net income of \$56,982,000 representing an increase of 12.2% and 7.8% respectively, over the prior fiscal year's results.

As of October 31, 1977, SDG&E had outstanding \$73,510,000 of short-term debt, the proceeds of which were used for capital additions and improvements. The company's construction budget for the year 1977 amounts to \$236,999,000 of which \$173,678,000 has been spent through the first ten months of the year.

A classification of the budgeted construction follows:-

<u>Description</u>	<u>Amount</u>
Electric Production	\$152,987,000
Electric Transmission	14,441,000
Electric Distribution	51,708,000
Gas Production, Transmission and Distribution	15,080,000
Steam Department	50,000
Common Plant	2,733,000
Total	<u>\$236,999,000</u>

The utility reports that as of October 31, 1977, unreimbursed construction expenditures totaled \$62,848,285, as set forth in the following summary:

<u>March 31, 1921 to October 31, 1977</u>	<u>Amount</u>
Net Construction Expenditures	\$1,447,606,282
Par Value of Redeemed Securities	<u>128,271,340</u>
Total	<u>\$1,575,877,622</u>
Deductions:	
Amount Not Bondable Per Decision No. 10032	\$ 45,116
Proceeds from Sale of Bonds and Notes	724,388,596
Proceeds from Sale of Debentures	34,598,022
Proceeds from Sale of Preferred Stock	199,493,944
Proceeds from Sale of Common Stock	244,408,414
Depreciation Reserve	<u>310,095,245</u>
Total	<u>\$1,513,029,337</u>
Unreimbursed Construction as of October 31, 1977	<u>\$ 62,848,285</u>

SDG&E has commenced negotiations for the sale of the preference stock through a group of underwriters represented by Merrill Lynch, Pierce, Fenner & Smith Incorporated and Blyth Eastman Dillon & Co. Incorporated. A preliminary copy of the underwriting agreement is attached to the application as Exhibit D. The final terms of the underwriting agreement and other terms of the proposed offering, including the price and dividend rate of the stock, the terms of redemption and sinking fund provisions, if any, the aggregate number of shares to be offered, and the underwriting spread, will be determined by negotiation between SDG&E and the underwriters shortly before the proposed public offering, which is expected to occur on or about February 15, 1978. The underwriters will then offer the stock to the public at a price in the range of \$25 to \$28 per share. SDG&E contemplates that there may be restrictions on the redemption and/or refunding of the Stock for a period of up to ten years following the sale.

SDG&E would use the net proceeds from the sale of the stock for the retirement of a portion of its outstanding short-term bank loans and commercial paper issued for temporary financing of additions to its utility plant, and the balance, if any, would be applied toward reimbursement of the company's treasury for capital expenditures.

The utility's reported capitalization ratios as of October 31, 1977, and as adjusted to give effect to the proposed stock issue, assuming proceeds of \$30,000,000, are as follows:

<u>Item</u>	<u>October 31, 1977</u>	
	<u>Recorded</u>	<u>Pro Forma</u>
First Mortgage Bonds	42.5%	41.5%
Debentures	2.2	2.1
Other Long-Term Debt	4.8	4.6
Preferred and Preference Stock	16.3	18.5
Common Stock Equity	<u>34.2</u>	<u>33.3</u>
Total	<u>100.0%</u>	<u>100.0%</u>

On a pro forma basis as of October 31, 1977, SDG&E's capital structure approaches the objective sought by the company over the past several years, namely, a capitalization consisting of 50% debt, 15% preferred and preference stock and 35% common stock equity. Reduction in the debt ratio has been achieved, for the most part, by placing more emphasis on equity financing.

Although the ratio of preferred and preference stock would increase to 18.5% after the proposed financing, the Finance Division estimates that SDG&E's after-tax coverage on a pro forma basis as of October 31, 1977 will be about 2.20 times for interest on debt and 1.78 times for combined coverage of interest plus dividends on preferred and preference stock.

The Finance Division has concluded that the proposed sale of preference stock would be appropriate at this time; however, the Division recommends that SDG&E be placed on notice that the reasonableness of the effective dividend rate and related costs

associated with the negotiated offering will be subject to further consideration in future rate proceedings.

After consideration the Commission finds that:

1. The proposed stock would be for proper purposes.
2. SDG&E has need for external funds for the purposes set forth in this proceeding.
3. The money, property or labor to be procured or paid for by the stock herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part reasonably chargeable to operating expenses or to income.

There is no known opposition and there is no reason to delay granting the authority requested in the application. The Commission therefore concludes that the application should be granted. A public hearing is not necessary.

In issuing our order herein, we place SDG&E and its shareholders on notice that we do not regard the number of shares outstanding, the total stated value of the shares, nor the dividends paid, as measuring the return it should be allowed to earn on its investment in plant, and that this authorization is not to be construed as a finding of the value of the company's stock or property nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

The applicant is placed on further notice that in future rate proceedings the Commission will take into consideration only those negotiated costs which it deems reasonable in establishing the effective dividend rate for the preference stock issue proposed herein.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company, on or after the effective date hereof and on or before June 30, 1978, may issue and sell not exceeding 1,200,000 shares of its Preference Stock (Cumulative), without par value, on terms and conditions to be negotiated with underwriters.

2. San Diego Gas & Electric Company shall apply the net proceeds from the sale of the stock herein authorized to the purposes set forth in the application.

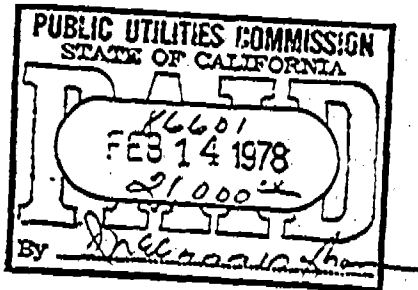
3. Promptly after San Diego Gas & Electric Company ascertains the dividend rate, underwriting spread, and price to be paid to it for the preference stock herein authorized, the company shall notify the Commission of each in writing.

4. As soon as available, San Diego Gas & Electric Company shall file with the Commission three copies of its final prospectus pertaining to said stock.

5. San Diego Gas & Electric Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

6. This order shall become effective when San Diego Gas & Electric Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$21,000.

Dated at San Francisco, California, this 7th day of FEBRUARY, 1978.



Robert Batimicel
President
William G. Jones
Gregory J. Stanger
Richard D. Howell
Clair L. Smith
Commissioners