Decision No. 90209 APR 24 1979

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 seven-year promissory note in the principal amount of $25,000,000.	Application No. 58770 (Filed March 30, 1979) and Amendment (Filed April 4, 1979)

OPINION

San Diego Gas & Electric Company (Applicant) 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. Notice of the filing of the application and the amendment appeared on the Commission's Daily Calendar of April 2 and April 5, 1979, respectively.

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 December 31, 1978, its uncapitalized construction amounted to $37,590,957, and the unexpended balance of its capital budget amounted to $484,851,000.

The application, as amended, indicates that pursuant to a bank credit agreement, Credit Lyonnais would provide a loan not exceeding $15,000,000.1/ (Applicant, by the amendment, reduced its short-term capital requirements in this transaction from $25,000,000 to $15,000,000.) The loan would be evidenced by a seven-year promissory note, which note would bear interest at an alternative rate tied to the London Interbank Offering Rate (LIBOR), plus 1/2% during the first and second year, plus 5/8% during the third, fourth and fifth year, and plus 3/4% during the sixth and seventh year or to the weekly average federal funds effective rate plus 7/8% during the first, second and third year, plus 1% during the fourth and fifth year, and plus 1-1/8% during the sixth and seventh year, and would be repaid in a single payment at maturity. The proceeds of the loan would be used to reimburse its treasury for capital expenditures.

1/ Applicant has concurrently filed Applications Nos. 58769 and 58771, for authority to issue promissory notes in the principal amounts of $20,000,000 and $30,000,000 and to execute and deliver bonds credit agreements to Dresdner Bank AG and to Credit Suisse, respectively.

According to the application, the utility recently considered the issuance of first mortgage bonds and private placement of other long-term debt securities. It has been advised by its investment bankers that adverse market conditions would require an interest rate substantially in excess of 10% and a retail marketing effort would substantially increase the effective cost of an issue of first mortgage bonds. The investment bankers also advised that no major financial institution that had purchased the utility's securities previously was willing to do so on acceptable terms.

Records available to the staff or the Commission's Finance Division indicate that Applicant's first mortgage bonds are presently rated BBB by Standard and Poor's Corporation and Baa by Moody's Investors Service, Inc.

Applicant solicited quotations from twenty domestic and six foreign banks for five- to seven-year term loans with options to be paid prior to maturity. This transaction is one of such term loans.

An Affidavit of Richard Korpan, Applicant's Treasurer, attached to the application as Exhibit "D" enumerates the justification for exemption from competitive bidding requirements as follows:

"2. 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 funds from a private placement of long-term debt securities after it became apparent that SDGE could not sell bonds on acceptable terms in the public market under current conditions.

"3. That said underwriters obtained responses to their solicitations from all of the major financial institutions which had purchased securities privately from SDGE in the past and that none of these institutions were interested in investing in SDGE debt securities at this time due to SDGE's debt rate in the current market exceeding California's usury limitation of 10% per annum.

"4. That I was responsible for soliciting bids for a seven-year term loan from twenty domestic and six foreign banks; namely:

DOMESTIC BANKS

Bank of American N.T.&S.A.	Irving Trust Company
Bank of California	La Salle National Bank
California First Bank	Manufacturers Hanover Trust Company
Chase Manhattan Bank, N.A.	Marine Midland Bank
Chemical Bank	Seattle First National Bank
First National City Bank	Security Pacific National Bank
Continental Illinois National Bank & Trust Company	Sumitomo Bank of California
Crocker National Bank	Union Bank
First National Bank of Chicago	United California Bank
Harris Trust & Savings Bank	Wells Fargo Bank, N.A.

Four of these banks indicated a willingness to be partial participants with others, while one bank did not respond. Seven banks quoted domestic rates (tied to prime) with a Eurodollar option.

FOREIGN BANKS

Algemene Bank Nederland N.V.	Dresdner Bank AG
Credit Lyonnais	National Westminster Bank, Ltd.
Credit Suisse	Union Bank of Bavaria

"5. That each such proposal was carefully analyzed and compared with the others. From such analysis and comparison, I concluded that three foreign banks offered the lowest rates and the most flexibility for choosing a rate structure.

"6. That the banks selected were Dresdner Bank AG, Credit Suisse and Credit Lyonnais; all of whom are licensed to conduct business in the state of California and have branch offices in Los Angeles. No bank, other than Credit Suisse, wanted to individually provide more than $20 million on comparable terms.

"7. That the amounts and rates supplied by the banks selected are as follows:

BANK	AMOUNT	LIBOR	ALTERNATE
Dresdner Bank AG	$20,000,000	LIBOR + 1/2% years 1,2 " + 5/8% years 3,4,5 " + 3/4% years 6,7	Fed. Funds + 7/8% years 1,2,3 Fed. Funds + 1% years 4,5 Fed. Funds + 1-1/8% years 6,7
Credit Suisse	$30,000,000	Same as Dresdner Bank AG	Prime in years 1-5 Prime + 1/4% years 6,7
Credit Lyonnais	$15,000,000 or with another bank, $25,000,000	Same as Dresdner Bank AG	

SDGE has the option to select the lowest rate available from each bank and, when selecting the LIBOR option, to select maturities of 1, 2, 3 or 6 months.

"8. That the effective rates for a seven-year loan term and for a three-year loan term, using current short-term money costs, are shown below. The lowest domestic bank bid has been included for comparison purposes. A three-year loan term is believed to be more indicative of the period the loans are expected to be in existence, since these loans are expected to be refinanced with long-term bond issues when market conditions warrant. To the extent short-term rates increase or decrease over the actual life of these loans, the actual effective cost will differ from that shown below.

EFFECTIVE RATES OVER LIFE OF LOAN*	7 YEARS	3 YEARS
Lowest Domestic Bank Bid	12.220%	12.033%
Dresdner Bank & Credit Lyonnais		
Federal Funds	11.052%	10.945%
London Interbank Offering Rate (LIBOR)	11.250%	11.167%
Credit Suisse		
Prime	11.820%	11.750%
LIBOR	11.250%	11.167%

* Source of information omitted.

"9. That the three term loans for which authorization is sought are the best of those submitted and afford SDGE the opportunity to consummate debt financing at a time when SDGE is effectively precluded from issuing long-term debt securities. That SDGE plans to repay such loans with long-term debt when market conditions warrant the issuance of such bonds. All loan agreements provide for prepayment provisions without penalty after the first year.

"11. That SDGE's construction program is such that it is in the best interest of SDGE to consummate these transactions."

The Finance Division and the Operations Division agree that the utility's request is reasonable and should be granted.

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 alternative interest rate tied to LIBOR, plus 1/2% during the first and second year, plus 5/8% during the third, fourth and fifth year and plus 3/4% during the sixth and seventh year or a weekly average federal funds effective rate plus 7/8% during the first, second and third year, plus 1% during the fourth and fifth year and plus 1-1/8% during the sixth and seventh year for the proposed note is more favorable than applicant could obtain on its first mortgage bonds with a seven-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 issuance 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 should be granted. A public hearing is not necessary. Because of time commitments related to obtaining the loan expeditiously, Applicant requests that the order become effective on the date hereof. The authorization herein granted is for the purpose of this proceeding only and is not to be construed as indicative of the 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 seven-year note in the principal amount not exceeding $15,000,000, pursuant to a bank credit agreement with Credit Lyonnais, 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 that attached as Exhibit 1 to the Amended Application.

3. San Diego Gas & Electric Company, for the purpose specified in this proceeding, may issue its note in the principal amount not exceeding $15,000,000, which note shall be in substantially the same form as that attached as Exhibit 2 to the Amended 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 a fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is $13,500.

Dated at San Francisco, California, this 24th day of APRIL, 1979.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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By

John E. Bryson
President

Commissioners