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Decision No. 91238 JAN 15 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & ELECTRIC COMPANY to execute and deliver credit agreements encumbering fuel inventories.	Application No. 59257 (Filed November 6, 1979)

O P I N I O N

San Diego Gas & Electric Company (SDG&E) seeks authority, pursuant to Sections 823(c) and 851 of the Public Utilities Code, (a) to renew and increase its authorization to issue evidences of indebtedness in an aggregate principal amount at any one time outstanding of not exceeding $150,000,000 and (b) to lease its fuel oil storage facilities for the purpose of establishing a field warehouse. Notice of the filing of the application appeared on the Commission's Daily Calendar of November 7, 1979.

SDG&E 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. For the twelve months ended September 30, 1979, SDG&E reports operating revenues of $701,805,000 and net income of $63,252,000.

In Decision No. 84202, dated March 18, 1975, in Application No. 55500, SDG&E was authorized to issue evidences of indebtedness in the aggregate principal amount not exceeding $60,000,000 at any one time outstanding and to secure this indebtedness by encumbering all of its fuel oil purchases.

In this Application, SDG&E seeks (a) to extend the term and increase the amount of its borrowing in order to finance fuel oil purchases and (b) to enter into credit agreements and associated documentation with any bank or banks for bankers' acceptance financing. The utility anticipates it will be necessary to borrow from time-to-time on a short-term basis, prior to December 31, 1985, up to $150,000,000.

Pursuant to a credit agreement, substantially in the same form as that attached to the application as Exhibit E, the utility proposes (a) to borrow and reborrow from various banks, until October 31, 1980, not exceeding $150,000,000 aggregate principal amount at any one time outstanding and (b) to seek an extension of its credit agreements until December 31, 1985. SDG&E states in its application that the ability to negotiate terms with various banks should result in a lower cost of money on short-term indebtedness than would be the case if the utility were limited to dealing with a single bank.

Pursuant to a lease, a copy of which is attached to the application as Exhibit E, SDG&E proposes to lease to Lawrence Systems, Inc. its existing fuel storage tanks for an annual nominal rental of $1 in order to establish a field warehouse, whereby, warehouse receipts can be issued to support the utilization of eligible bankers' acceptances at a lower cost to the utility. SDG&E states the field warehouse will be used exclusively for its benefit and it retains all of the obligations of maintenance that it presently has.

Lawrence Systems, Inc. is a warehousing company whose principal business is the managing of collateral on the premises of companies in support of bank loans. Lawrence Systems, Inc. will serve as a bonded warehousing agent, will check the fuel inventory and certify this inventory to the banks doing business with SDG&E. SDG&E estimates that in 1980 it will pay Lawrence Systems, Inc. $74,000 for its services.

SDG&E states that acceptance financings are of basically two types: (1) eligible bankers' acceptances and (2) finance bills, bills of exchange or "ineligible" acceptances. An eligible bankers' acceptance is one which is eligible for discounting with the Federal Reserve which results in the bank being exempt from reserve requirements which in turn results in lower cost. Eligibility is determined by the transaction financed and its tenor. Specifically, for the loan to qualify or be "eligible" for Federal Reserve System loans, it must meet the following criteria: (1) there must be an underlying transaction evidenced by a contract (international transactions) or a title document (such as a warehouse receipt) issued by a third party (domestic transactions); (2) goods covered under the acceptance must be readily marketable and must move into the normal channel of trade; (3) the total acceptance time must not exceed six months and (4) the proceeds of the transaction must liquidate the acceptance at maturity.

SDG&E indicates that the essence of the field warehousing transaction is not to lease the facilities to others for their exclusive use, but to lease them for a nominal value for the purpose of establishing a field warehouse arrangement which in turn creates "eligible" bankers' acceptances. The use of these eligible bankers' acceptances as a financing method reduces the financing cost to the company.

On November 27, 1979, the cost to SDG&E of an ineligible acceptance was 15.65%, while an eligible acceptance would have been approximately 13.75%. In 1980, Applicant expects to have an average of approximately $74,000,000 outstanding in acceptance financing. Based on the above pricing, interest expense would be reduced some $1.4 million through implementation of the field warehousing facility resulting in "eligible" acceptances.

SDG&E indicates that the field warehousing transaction and the leasing of the fuel oil facilities incidental thereto would not require the reclassification or transfer of the facilities to Account 104, Electric Plant Leased to Others, for the following reasons: (1) the Company and the ratepayers continue to receive the benefits of these facilities as though the Company still owned them; (2) having a nominal rental fee of $1 for property with a book value of approximately $32.7 million clearly indicates that the lease arrangement is merely for the purpose of establishing a field warehouse to establish "eligible" bankers' acceptances;

(3) the lease transaction and resulting eligible bankers' acceptances result in a lower interest rate on bankers' acceptances which in turn lowers the cost to the ratepayer through a lower authorized rate of return; and (4) the lease can be terminated at one year intervals, after giving 90 days' notice, without penalty or cost to the Company.

Pursuant to the form of the proposed credit agreement, attached to the application as Exhibit D, the borrowings by SDG&E would be evidenced by: (1) a revolving credit note and renewals thereof in the principal amount of $2,000,000, such revolving credit note allowing the utility to borrow the discount (cost of financing the acceptance) payable on issue date; (2) drafts in the form of bills of exchange or "ineligible" acceptances; and (3) eligible bankers' acceptances. Advances and repayments under the revolving credit note would be entered on the reverse side thereof, and interest would be payable monthly at a rate per annum of 120% of the bank's prime rate. SDG&E states that the revolving credit note has not been used in the past and that it is not expected to be used in the future. For either eligible or ineligible acceptances, SDG&E proposes to pay to the bank for acceptance of the drafts, a commission at a rate to be negotiated from time-to-time, and an amount equal to the current market discount rate per annum for bankers' acceptances. Proceeds from the borrowings would be used for the purchase of fuel oil and expenses incident thereto, and the evidences of indebtedness would be secured by warehouse receipts.

The Application indicates that the purpose of entering into the proposed transaction is to defer payment for fuel oil purchases to the time that the fuel oil is actually consumed and that, based on current money market conditions, this is a cheaper method by which to finance this activity.

The Revenue Requirements Division of the Commission's staff has reviewed the Application and has concluded the utility's requests are reasonable and should be granted. However, the Division reserves the right to further consider the reasonableness of the expenditures involved and the rate base treatment in future rate proceedings.

Findings of Fact

1. SDG&E is a California corporation operating under the jurisdiction of this Commission.

2. The proposed evidences of indebtedness would be for proper purposes.

3. The proposed leasing arrangement is for a proper purpose and is not adverse to the public interest.

4. The proposed Credit Agreement would not be adverse to the public interest.

5. The proposed leasing arrangement will not affect the current rate-making treatment of the fuel storage facilities.

6. The money, property or labor to be procured or paid for by the evidences of indebtedness herein authorized is reasonably required for the purposes specified herein and such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

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 authority granted herein is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be allowed in proceedings for the determination of just and reasonable rates.

ORDER

IT IS ORDERED that:

1. San Diego Gas & Electric Company, on or after the effective date hereof and on or before December 31, 1985, for the purposes set forth in this procedure and in accordance with its proposed Credit Agreement and related extension documents, in subtantially the same form as that attached to the application as Exhibit D, may issue evidences of indebtedness in an aggregate principal amount at any one time outstanding of not exceeding $150,000,000 to any bank or banks.

2. San Diego Gas & Electric Company may enter, exercise and deliver credit agreements and associated documents with any bank or banks as proposed in this application.

3. San Diego Gas & Electric Company may enter into a lease, substantially in the form of Exhibit E attached to the application, for the purpose of establishing a field warehouse without this transaction affecting the rate treatment accorded to the fuel storage facilities at this time.

4. On or before the tenth day of each month, San Diego Gas & Electric Company shall file with this Commission a summary for the preceding month showing borrowings made, borrowings repaid and outstanding balances. These summaries shall be in lieu of reports required under General Order No. 24-B.

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 $51,000.

Dated JAN 15 1980, at San Francisco, California.

President

Commissioners

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STATE OF CALIFORNIA
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By