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Decision No. 91381 MAR 4 1980 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & ELECTRIC COMPANY, to issue and sell not exceeding $75,000,000 of bonds and to execute a supplemental indenture.

Application No. 59366
(Filed January 8, 1980)

OPINION

San Diego Gas & Electric Company (SDG&E) requests authority (a) to issue and sell not exceeding $75,000,000 aggregate principal amount of First Mortgage Bonds, Series S, (b) to execute and deliver a Twentieth Supplemental Indenture, and (c) to exempt the proposed sale of bonds from the requirements of the Commission's competitive bidding rule.

SDG&E requests this authority pursuant to Sections 816 through 818 and 851 of the Public Utilities Code.

Notice of the filing of the application appeared on the Commission's Daily Calendar of January 10, 1980.

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 November 30, 1979, the utility reported total operating revenues of $731,204,000 and net income of $69,887,000.

SDG&E's construction budget for the year 1979 amounts to $230,957,000, of which $205,825,000 has been spent through the first eleven months of the year. A detailed classification of the budgeted construction for 1980 is as follows:

Description	Amount
Electric Production	$106,976,000
Electric Transmission	32,637,000
Electric Distribution	50,461,000
Gas & Steam Production, Transmission and Distribution	13,799,000
Common Plant	5,621,000
Total	$209,494,000

Unreimbursed construction expenditures were $61,357,637 as of November 30, 1979, as set forth below:

March 31, 1921 to November 30, 1979	Amount
Net Construction Expenditures	$1,766,928,147
Par Value of Redeemed Securities	143,190,239
Total	$1,910,118,386
Deductions	
Amount not Bondable per Decision No. 10032	$ 45,116
Proceeds from Sale of Bonds and Notes	841,496,915
Proceeds from Sale of Debentures	34,598,022
Proceeds from Sale of Preferred Stock	225,853,104
Proceeds from Sale of Common Stock	368,243,124
Depreciation Reserve	378,524,468
	$1,848,760,749
Unreimbursed Construction as of November 30, 1979	$ 61,357,637

SDG&E proposes to issue and sell not exceeding $75,000,000 aggregate principal amount of its bonds. The utility would use the net proceeds, exclusive of accrued interest, for the retirement of a portion of its outstanding short-term loans and commercial paper issued for temporary financing of additions to its utility plant, and the balance, if any, would be applied toward the reimbursement of the company's treasury for capital expenditures. The accrued interest received would be used for general corporate purposes.

The Series S Bonds would be secured by an existing indenture as previously amended and supplemented, and as further supplemented by a proposed Twentieth Supplemental Indenture, which is attached to the application as Exhibit E.

The utility's capital ratios as of November 30, 1979, and as adjusted to reflect the proposed sale of the Bonds, assuming proceeds of $75,000,000, the anticipated sale of 2,500,000 shares of common stock (estimated proceeds of $35,000,000) involved in Application No. 59367, filed on January 10, 1980, and the 750,000 shares of common stock (employee savings plan) estimated proceeds of $10,500,000 in Application No. 59370, filed January 9, 1980, are as follows:

Component	November 30, 1979	Pro Forma
First Mortgage Bonds	35.3%	37.5%
Debentures	1.7	1.6
Other Long-Term Debt	9.0	8.3
Preferred and Preference Stock	15.4	14.1
Common Stock Equity	38.6	38.5
	100.0%	100.0%

During calendar year 1979, out of the total financing authorized by this Commission, SDG&E has secured approximately $125,000,000. This consisted or $6,000,000 from Pollution Control Bonds, $65,000,000 from three European Intermediate Term Loans, and approximately $54,000,000 from the sale of common stock. The utility has projected that during calendar year 1980 it will request authority from the Commission to finance approximately $202,000,000 in capital improvements. The company expects to raise $125,000,000 of this by issuing First Mortgage Bonds and $77,000,000 through the sale of common stock.

SDG&E, by its letter dated January 31, 1980, states that its cash needs at this time are so compelling that the company must complete the proposed bond financing since its short-term credit facilities will be fully utilized at the time of the proposed financing, which is planned for March 20, 1980.

SDG&E proposes to issue and sell the bonds on a negotiated basis through a nationwide group of underwriters represented by Merrill Lynch, Pierce, Fenner & Smith Incorporated and Blyth Eastman Paine Webber Incorporated, who will agree to purchase all of the bonds pursuant to a Purchase Agreement. On or about February 28, 1980, the utility expects to complete negotiations with the underwriters for determining the terms of the proposed offering including: (a) price of bonds, (b) interest rate, (c) aggregate principal amount, (d) maturity date, (e) sinking fund requirements (if any), (f) call protection, (g) other redemption provisions, and (h) underwriting commissions.

SDG&E by letter dated January 31, 1980 also urges the Commission to avoid restricting the company in its ability to negotiate on any terms of the offering because or the problems the company would face if this sale is not completed. The utility specifically requests that it not be restricted in negotating a ten-year no-call option. The letter states that due to the current world situation in the Middle East, there exists substantial turmoil in today's financial market. The bond market, in particular, has become very sensitive and economic factors could result in further credit tightening. This could result in a market deterioration similar to 1974 - 1975 period when companies with Baa bond ratings (SDG&E is rated Baa) were precluded from selling in the market place without substantial concessions in price and terms and for several months could not sell debt on any terms. The letter further states that it is most important that SDG&E be able to negotiate on all terms to insure the successful placement of the entire bond issue. The financial impact of the ten-year no-call option is such that SDG&E would offer it as a last resort measure if the issue could not be completed without it.

SDG&E requests an exemption for the proposed issue and sale of the Bonds from the Commission's competitive bidding rule established by Commission Decision No. 38614, dated January 15, 1946, as amended from time-to-time in Case No. 4761. The utility's reasons for requesting an exemption from competitive bidding requirements are set forth in its application as follows:

(1) The continued uncertainty in the financial markets makes it desirable to have the maximum flexibility provided by a negotiated offering to take advantage of short-term changes in the interest rate and market conditions, and, if necessary, to adjust the terms of the proposed issue, including the principal amount maturity date(s), and redemption provisions (including sinking fund, if any), in response to the requirements of the market at the time of the offering. The flexibility of timing and terms afforded by a negotiated underwriting will increase the likelihood of successfully selling the Bonds.

(2) The current unstable condition of the bond market makes essential pre-offering marketing efforts by the prospective underwriters, particularly in the case of SDG&E's bonds which are rated in the lowest category for investment grade securities (Baa/BBB). Investment bankers associated with the negotiating group in a negotiated underwriting are in a position to engage in such efforts, but members of a bidding group are not. Such efforts, together with the greater flexibility in timing and terms, can result in a lower cost of money through a negotiated underwriting than would be obtained if the offering were made by means of competitive bidding.

(3) SDG&E believes that it is essential to have a successful offering. In view of the marketing uncertainties discussed above and the magnitude of applicant's current financing program (approximately $160,000,000 for 1980), SDG&E believes that a negotiated offering increases the likelihood of a successful offering. SDG&E also believes that additional marketing advantages can be derived if the utility is able to combine this offering of the Bonds on a negotiated basis with the offering of its Common Stock currently scheduled for the same date.

In view of the foregoing uncertainties, the marginal rating of SDG&E's bonds (Baa/BBB), and the magnitude of its current financing program, SDG&E believes and the Revenue Requirements Division staff concurs that it is essential to have the flexibility and marketing advantages provided by a negotiated offering. The Revenue Requirements Division concurs that the funds are needed for the purposes specified in the application. The Division reserves the right, however, to reconsider the reasonableness of any construction expenditures in future rate proceedings.

Findings of Fact

1. SDG&E's First Mortgage Bonds are presently rated BBB by Standard & Poor's Corporation and Baa by Moddy's Investors Service, Inc.

2. The proposed Twentieth Supplemental Indenture would not be adverse to the public interest.

3. The proposed bonds would be for proper purposes.

4. SDG&E has need for external funds for the purposes set forth in this proceeding.

5. The sale of the proposed bonds should not be required to be through competitive bidding.

6. The money, property or labor to be procured or paid for by 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.

7. There is no known opposition and there is no reason to delay granting the authority requested in the application.

Conclusion 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:

SDG&E is hereby placed on notice that if the Commission believes that the negotiated price or interest rate pertaining to the proposed bond issue will result in an excessive effective interest cost, it will take into consideration in rate proceedings only that which it deems reasonable.

This decision is not intended to modify the competitive bidding rule initially established in Decision No. 38614 as amended by the Commission in subsequent decision in Case No. 4761.

ORDER

IT IS ORDERED that:

1. The sale by San Diego Gas & Electric Company of not exceeding $75,000,000 aggregate principal amount of its First Mortgage Bonds, Series S, is hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, in Case No. 4761.

2. San Diego Gas & Electric Company may execute and deliver a Twentieth Supplemental Indenture in substantially the same form as Exhibit E attached to the application, with the modification or insertion of such terms as proposed and conditions as interest rate, principal amounts, maturity date, place and manner of payment, sinking fund, call protection and other redemption provisions and redemption restrictions as may be contemplated by the application.

3. San Diego Gas & Electric Company may issue and sell not exceeding $75,000,000 aggregate principal amount of its First Mortgage Bonds, Series S, on terms and conditions to be negotiated as contemplated by the application.

4. San Diego Gas & Electric Company shall use the net proceeds from the sale of said bonds for the purposes referred to in the application.

5. Upon determining the price, interest rate and other terms pertaining to the bonds herein authorized, San Diego Gas & Electric Company shall notify the Commission thereof in writing.

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

7. 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.

8. 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 $43,500.

Dated MAR 4 1980, at San Francisco, California.

John E. Bryson
President

Vernon L. Sturgeon

Richard D. Gravelle

Claire T. Dedrick

Leonard M. Grimes, Jr.
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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MAR 4 1980
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By [signature]