

ORIGINAL

Decision No. 92246 SEP 16 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC LIGHTING)
SERVICE COMPANY for Authorization)
for Intermediate-Term Commercial)
Bank Borrowings Not to Exceed)
\$70,000,000.)

Application No. 59861
(Filed August 6, 1980)

O P I N I O N

Pacific Lighting Service Company (PLS) requests authorization for intermediate-term commercial bank borrowings not to exceed \$70,000,000 in aggregate principal amount and for execution and delivery of its promissory note or notes evidencing such borrowings. PLS further seeks exemption of the proposed intermediate-term bank borrowings from the Commission's competitive bidding requirements. Notice of the application was published in the Commission's Daily Calendar for August 8, 1980. No protests to the application were filed.

PLS is a wholly owned subsidiary of Pacific Lighting Corporation. It is a public utility engaged in the acquisition, compression, transportation, storage, and exchange of natural gas and in the sale of natural gas exclusively to Southern California Gas Company (SoCal), a public utility affiliate of PLS which distributes natural gas throughout most of southern California and portions of central California. PLS owns natural gas transmission lines, underground storage rights and facilities, metering and regulating stations, and other property necessary in connection with its business. All labor necessary to conduct the operations of PLS

is provided by SoCal. PLS recovers its costs from SoCal pursuant to a cost of service tariff authorized by the Commission. For the twelve months ending June 30, 1980, PLS reported total operating revenues of \$618,955,648 with net income of \$15,562,834.

The capitalization of PLS as of June 30, 1980 and as adjusted to give pro forma effect to the proposed intermediate-term commercial bank borrowings in \$70,000,000 aggregate principal amount is set forth as follows:

	<u>Actual</u>		<u>Pro Forma</u>	
<u>Debentures</u>				
5% October 1, 1980	\$ 1,096,000		\$ 1,096,000	
9% February 15, 1985	35,000,000		35,000,000	
9.3% November 1, 1985	25,000,000		25,000,000	
7% July 1, 1988	13,114,000		13,114,000	
7-5/8% December 1, 1991	17,063,000		17,063,000	
8-3/8% September 1, 1993	<u>22,277,000</u>		<u>22,277,000</u>	
Total debentures	<u>113,550,000</u>	<u>38.2%</u>	<u>113,550,000</u>	<u>30.9%</u>
Intermediate-term debt	<u>-</u>	<u>-</u>	<u>70,000,000</u>	<u>19.1</u>
<u>Shareholders' equity</u>				
Common stock issued	50,000,000	16.9	50,000,000	13.6
Miscellaneous paid-in capital	110,000,000	37.0	110,000,000	30.0
Capital stock expense	(36,000)	-	(36,000)	-
Unappropriated retained earnings	<u>23,551,000</u>	<u>7.9</u>	<u>23,551,000</u>	<u>6.4</u>
Total proprietary capital	<u>183,515,000</u>	<u>61.8</u>	<u>183,515,000</u>	<u>50.0</u>
Total	297,065,000	100.0	367,065,000	100.0
<u>Short-term debt</u>				
Accounts payable to Pacific Lighting Corporation	201,514,000		131,514,000	

(Red Figure)

PLS proposes to use the proceeds from the intermediate-term commercial bank borrowings to reimburse its treasury for monies expended and to be expended for the following purposes:

1. Retirement of debentures through operation of the sinking fund provision \$30,608,000
2. Reimbursement of the treasury for a portion of the funds expended for construction and GEDA \$39,392,000

The total amount of \$70,000,000 so reimbursed will become a part of the general treasury funds of PLS.

PLS's plant expenditures for 1979 were approximately \$19 million. PLS estimates it will spend approximately \$56 million and \$59 million in 1980 and 1981 mainly to acquire and improve an additional underground gas storage field.

PLS has solicited competitive proposals for the required intermediate-term borrowings from three major commercial banks. It has determined that The Chase Manhattan Bank, N.A. (Chase Manhattan) has proposed the most favorable terms and conditions for such borrowings. The principal financial terms and conditions proposed by Chase Manhattan are attached as Appendix A. PLS requests Commission authority to enter into a loan agreement with Chase Manhattan for intermediate borrowings on the terms contained in Appendix A or upon terms and conditions substantially consistent with those proposed.

In its application, PLS states that it normally obtains debt financing through public offerings effected pursuant to the Commission's competitive bidding procedures as set forth in Decision No. 38164 and as recently amended in Decision No. 91984. PLS contends that its proposed intermediate-term commercial bank

borrowings would provide it with greater financial flexibility than could be obtained at this time in a public offering of indebtedness made in compliance with the Commission's competitive bidding procedures. PLS further contends that such financial flexibility would be obtained at an overall cost of money no greater and perhaps substantially less than for comparable or longer-term indebtedness issued publicly through the competitive bidding process.

In support of its request for an exemption from competitive bidding requirements, PLS raises, among other things, the argument that the volatile nature of today's long-term money markets as well as continuing uncertainty respecting inflation militate against the issue of long-term utility indebtedness by competitive bid. We still are not persuaded that this is a valid rationale for granting an exemption. However, PLS has provided other reasons in support of its request which do justify our authorization of an exemption from the competitive bidding rule. ✓

1. . Public offerings of indebtedness typically require a prohibition for a number of years upon the refunding of the indebtedness at a lower effective cost of money. This prohibition prevents an issuer from taking advantage of lower interest rates generated through changes in market conditions or improvements in its financial condition and is particularly burdensome to issuers, such as PLS, required to seek debt financing during periods of high interest rates and temporary financial uncertainty. PLS does not believe that this burden on future financial flexibility could be eliminated or significantly reduced in a public offering of its indebtedness except, if at all, at a substantial increase in the cost of that indebtedness.

In contrast, no refunding prohibition would be imposed by the proposed intermediate-term commercial bank borrowings. These borrowings would thus provide PLS with the financial flexibility to refinance its current debt requirements on more favorable terms as interest rates decline or the uncertainties as to its financial condition are favorably resolved.

2. Public offerings of indebtedness also typically require a rating of that indebtedness and of the credit worthiness of the issuer by nationally recognized investment services. PLS believes such a rating would be required in connection with any public offering of its indebtedness and, in view of the uncertainties as to its financial condition, could be significantly lower than the rating received in connection with its last public offering. Accordingly, it believes that the interest rate required for any new public offering of its indebtedness would be substantially higher than the rate currently yielded by its outstanding publicly held indebtedness.

In contrast, no rating by investment services is required in connection with the proposed intermediate-term commercial bank borrowings and the ability of PLS to alleviate lenders' concerns as to its financial condition is much greater than would be possible in a public offering of its indebtedness. This has resulted in interest rates for the proposed borrowings which are comparable to those currently yielded by its outstanding publicly held indebtedness. These rates are substantially lower than could be obtained in a public offering of indebtedness rated below the

current rating for outstanding publicly held indebtedness of PLS. In addition, other costs associated with the proposed borrowings would be substantially less than for a public offering of PLS's indebtedness.

3. Perhaps most importantly, it must be noted that PLS has solicited a number of competitive proposals for its proposed intermediate-term commercial bank borrowings. PLS has substantially obtained the same benefits sought to be obtained by the Commission's competitive bidding procedures without the burdens inherent in the public offering contemplated by those procedures.

We are persuaded by the showing of PLS that there is a demonstrated need for intermediate-term commercial bank borrowings not to exceed \$70,000,000 in aggregate principal amount. We are also persuaded that application of our competitive bidding rule is not, in this case, in the best interest of the ratepayers. Accordingly, we will grant the authority as requested in the application.

Findings of Fact

1. PLS is a California corporation operating under the jurisdiction of this Commission.
2. The proposed intermediate-term commercial bank borrowings are for proper purposes.
3. The utility has a need of external funds for the purposes set forth in this decision.
4. The terms and conditions of the proposed intermediate-term commercial bank borrowings are just and reasonable and in the public interest.

5. The money, property, or labor to be procured or paid for by the issuance and sale of the debt securities 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.

6. The intermediate-term commercial bank borrowings are not required to be effected by competitive bidding.

Conclusion of Law

The application should be granted. The authorization granted 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. Pacific Lighting Service Company (PLS) may borrow from The Chase Manhattan Bank, N.A. (Chase Manhattan) not to exceed \$70,000,000 in aggregate principal amount upon the terms and conditions as are not inconsistent with the foregoing discussion.

2. PLS is authorized to execute and deliver to Chase Manhattan its promissory note or notes evidencing such borrowings.

3. PLS shall use the proceeds from the intermediate-term commercial bank borrowings not to exceed \$70,000,000 in aggregate principal amount for the purposes stated in the application.

4. As soon as practicable and prior to effecting any of the proposed borrowings, PLS shall file with the Commission a copy of the loan agreement pursuant to which the borrowings will be effected.

5. PLS 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.

This order shall become effective when PLS has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$25,696.

Dated SEP 16 1980, at San Francisco, California.

John E. Byrne
President
Deborah L. Sturgeon
Michael D. Havel
Charles J. DeAngelis
Donald W. King
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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25,696.-
By [Signature]

APPENDIX A
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The Principal Financial Terms and Conditions
As Proposed by The Chase Manhattan Bank, N.A.:

Commitment: \$70,000,000

Final Maturity: October 30, 1988

Amortization:

October 30, 1986	\$20,000,000
October 30, 1987	\$20,000,000
October 30, 1988	\$30,000,000

Interest:

Average Annual
Maximum to Maturity - 14%

Average Annual
Minimum to Maturity - 10%

Collections -

Payment Rate - At higher of (i) the prime rate of Chase Manhattan or (ii) one percentage point above the secondary market offering rate for three-month Certificates of Deposit, in each case, as in effect from time to time and multiplied by 103% for years 1 and 2, 105% for years 3 through 5, and 108% for years 6 through 8.

Overcollections - Upon payment of principal at maturity Chase Manhattan will refund to applicant the amount, if any, by which collections exceed interest on 14% fixed annual interest rate borrowings.

Undercollections - Upon payment of principal at maturity or optional prepayment, applicant will remit to Chase Manhattan the amount, if any, by which collections are less than interest on 10% fixed annual interest rate borrowings.

(Continued)

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Calculation - On the basis of actual days elapsed and a year of 365 or 366 days as the case may be.

Prepayment: At any time at option of applicant. Overcollections of interest, if any, will not be refunded by Chase Manhattan to applicant upon optional prepayment. Undercollections of interest, if any, will be remitted by applicant to Chase Manhattan on optional prepayment.

Draw Down: Any time on or prior to March 31, 1981.

Restrictive Covenants: Similar to and no more restrictive than those in respect of applicant's publicly held debentures.

Fees and Expenses:

Commitment Fee - One-half of one percent (0.5%) of unborrowed commitment commencing on the earlier of October 30, 1980 or authorization for borrowings by the Commission.

Compensating Balances - None.

Other - Reimbursement of Chase Manhattan's reasonable out-of-pocket expenses.