

ORIGINAL

Decision 92939 APR 21 1981

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 First Mortgage Bonds and to execute one or more Supplemental Indentures.

Application 60297 (Filed February 26, 1981)

O P I N I O N

San Diego Gas & Electric Company (SDG&E) requests authority pursuant to Sections 816 through 818 and 851 of the Public Utilities Code, for the following:

1. To issue and sell up to \$75,000,000 aggregate principal amount of its First Mortgage Bonds (Bonds), in one or more series, either by competitive bidding or by negotiated private placement;
2. To be exempted from the requirements of the Commission's competitive bidding rule; and
3. To execute and deliver one or more Supplemental Indentures.

Notice of the filing of this application appeared on the Commission's Daily Calendar of March 4, 1981. No protests have been received.

SDG&E, a California corporation, engages principally in the business of providing electric service in portions of Imperial and Orange Counties. It also provides electric, gas and steam service in portions of San Diego County.

On its Income Statement for calendar year 1980, shown as part of Exhibit A attached to the application, SDG&E reports it generated total operating revenues of \$960,443,880 and net income of \$52,046,107.

SDG&E's Balance Sheet as of December 31, 1980, also shown as part of Exhibit A, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$1,590,852,329
Net Other Property and Investments	15,804,565
Current and Accrued Assets	325,556,851
Deferred Debits	62,615,646
Total	<u>\$1,994,829,391</u>

<u>Liabilities and Equity</u>	<u>Amount</u>
Common Stock Equity	\$ 585,785,840
Preferred/Preference Stock	213,500,000
Long-Term Debt	735,204,349
Current and Accrued Liabilities	391,826,277
Deferred Credits and Reserves	68,512,925
Total	<u>\$1,994,829,391</u>

SDG&E's capital ratios as of December 31, 1980, and adjusted below to give effect to:

1. The proposed issue and sale of up to \$75,000,000 aggregate principal amount of SDG&E's Bonds;
2. The issue and sale of up to 1,600,000 shares of Cumulative Preference Stock, without par value, estimated to produce up to \$40,000,000 (D.92756, dated March 3, 1980, in A.60206);
3. The issue and sale of up to 6,500,000 share of Common Stock, \$5 par value, estimated to produce net proceeds of \$84,500,000 (D.92805, dated March 17, 1981, in A.60228)

are summarized as follows:

	<u>December 31, 1980</u>	<u>Pro Forma</u>
First Mortgage Bonds	40.2%	39.9%
Debentures	1.5	1.3
Other Long-Term Debt	6.1	5.4
Total Long-Term Debt	<u>47.8</u>	<u>46.6</u>
Preferred/Preference Stock	13.9	14.7
Common Stock Equity	38.3	38.7
Total	100.0%	100.0%

SDG&E's construction budget for the calendar year 1980 amounted to \$226,535,000 of which \$215,377,000 has been spent. A detailed classification of the budgeted construction for 1981 and 1982 is as follows:

<u>Purpose</u>	1981	1982
Electric Production	\$126,857,000	\$ 76,266,000
Electric Transmission	35,495,000	109,873,000
Electric Distribution	73,308,000	92,934,000
Gas and Steam Production, Transmission and Distribution	19,180,000	20,288,000
Common Plant	5,112,000	6,926,000
Total	<u>\$259,952,000</u>	<u>\$306,287,000</u>

The staff of the Commission's Revenue Requirements Division has reviewed SDG&E's construction program and has concluded that the utility's construction expenditures are reasonable. The staff has no objection to the proposed security issue or issues specified in the application; however, the Division reserves the right to reconsider the reasonableness of any construction expenditures in future rate proceedings.

SDG&E proposes to issue and sell the Bonds in one or more sales on a competitive bid basis, or, alternatively, on a negotiated private placement basis through a nationwide group of underwriters.

The utility expects to complete negotiations with the underwriters for determining the terms of the proposed offering(s) 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 prior to each sale.

SDG&E requests an exemption from the Commission's competitive bidding rule established by Commission Decision (D.) 38614, dated January 15, 1946, as amended from time to time in Case (C.) 4761, for the limited purpose of a negotiated private placement sale for the proposed issue and sale(s) of the Bonds. The utility's reasons for requesting an exemption from competitive bidding requirements are set forth in its application and in a letter dated March 18, 1981 to the Commission's staff. The reasons given are as follows:

1. SDG&E anticipates that volatile market conditions will continue throughout 1981.
2. SDG&E has a low credit rating of Baa/BBB, which is the lowest investment grade security.
3. SDG&E has a high short-term debt level representing 11.5% of total capitalization.
4. SDG&E believes that the terms and conditions of a private placement sale would be tailored to meet the requirements of institutional investors in order to

obtain a more favorable interest rate on the Bonds than would be available through a competitive bid in the public market. Unless such favorable terms through private placement were available to the company, it would propose to sell the Bonds by competitive bidding.

5. A private placement of the Bonds is less expensive than a public offering. The incremental costs of a public offering versus a private placement would be about \$100,000. Costs of a public offering consist primarily of Securities and Exchange Commission filing fees, bond rating fees, printing costs, trustee fees, and outside accountant and legal services.
6. The underwriting spread of a private placement is considerably less expensive than a public offering. SDG&E estimates the savings would be about \$375,000.

The staff of the Commission's Revenue Requirements Division has reviewed the foregoing reasons and concurs with the utility that debt securities of SDG&E offered by a public sale, such as a negotiated or competitive offering, would be more costly than a sale by private placement.

In D.91984, dated July 2, 1980 for SDG&E, A.59633, we discussed the granting of exemptions from the competitive bidding rule, and we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule. We served notice that assertions regarding the volatility of the market, the flexibility provided by a negotiated sale, and the importance of maximizing the effectiveness of the underwriting group will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

Because the proposed Bonds will be sold by private placement on terms which will be negotiated after the issuance of this decision and because of the staff's foregoing conclusion that the Bonds will be sold at a cost as low, if not lower, than would prevail if the Bonds were to be sold at competitive bidding, we are of the opinion that applying the Commission's competitive bidding requirements and conditions set forth in D.91984 in this proceeding would not be in the best interests of SDG&E or its ratepayers. These requirements and conditions would not operate to ensure that SDG&E's sale of the Bonds would be at the most favorable cost of money. However, in order not to preclude such an offering we will also grant SDG&E the authority to issue the proposed Bonds by means of a competitive offering.

Findings of Fact

1. SDG&E, a California corporation, operates under the jurisdiction of this Commission.
2. The proposed Bonds would be for proper purposes.
3. SDG&E has need for external funds for the purposes set forth in the application.
4. The proposed Supplemental Indenture(s) would not be adverse to the public interest.
5. The sale of the proposed Bonds should be required to be through competitive bidding, or, alternatively, exempted from the requirements of the Commission's competitive bidding rule for the limited purpose of a negotiated private placement sale.
6. The money, property or labor to be procured or paid for by the sale of the Bonds, 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.
7. There is no known opposition and no reason to delay granting the authority requested.

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 action taken herein is for the purposes of this proceeding only. It is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

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(s) 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 D.38614 as amended by the Commission in subsequent decisions in C.4761.

O R D E R

IT IS ORDERED that:

1. The sale by San Diego Gas & Electric Company of up to \$75,000,000 aggregate principal amount of its First Mortgage Bonds, in one or more sales during 1981, is hereby exempted from the Commission's competitive bidding rule set forth in D.38614, dated January 15, 1946, as amended in C.4761, for a private placement sale only.
2. San Diego Gas & Electric Company may execute and deliver one or more Supplemental Indentures as contemplated by the application, with the modification or insertion of the terms as proposed and conditions as interest rate, principal amount, 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 up to \$75,000,000 aggregate principal amount of its First Mortgage Bonds, in one or more series during 1981, 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 First Mortgage 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 its First Mortgage Bonds.

7. San Diego Gas & Electric Company shall file with the Commission a report, or reports, as required by General Order Series 24-B, which order, insofar as applicable, is hereby made a part of this order.

A.60297 RR/wps

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 APR 21 1981, at San Francisco, California.

John E. Bryan  
President  
Robert D. Bradley  
Lionel W. Spivey  
Walter C. ...  
Francis C. ...  
Commissioners

PUBLIC UTILITIES COMMISSION  
STATE OF CALIFORNIA  
104809  
APR 21 1981  
\$43,500.00  
BY [Signature]