

93137 JUN 2 1981

ORIGINAL

Decision _____

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;
 Petition for Modification
 filed May 4, 1981)

SUPPLEMENTAL OPINION

Decision (D.) 92939, dated April 21, 1981, granted San Diego Gas & Electric Company (SDG&E), among other things, the authority to issue and sell up to \$75,000,000 principal amount of its First Mortgage Bonds (Bonds) in one or more series by negotiated private placement, exempt from the Commission's competitive bidding rule.

SDG&E requests D.92939 be modified, under Section 701 of the Public Utilities Code, authorizing it to sell its Bonds by negotiated public offerings.

Notice of the filing of the Petition for Modification of D.92939 appeared on the Commission's Daily Calendar on May 6, 1981. No protests have been received.

SDG&E sets forth various reasons to justify its request to issue and sell its Bonds by negotiated public offering. It indicates that since D.92939 was issued, the marketplace for debt instruments such as those it proposes to offer has experienced continued uncertainty and fluctuation where the interest rate commenced to decline

and, thereafter, to increase; the market for its securities has continued to deteriorate. SDG&E states the market is particularly uncertain for utilities with a Baa/BBB credit rating.

SDG&E requests a modification of D.92939 to grant it a waiver of the competitive bidding rule allowing it to negotiate a public offering in addition to the existing authority. SDG&E bases its requests on the following reasons:

1. Current market conditions indicate a continued period of high and volatile interest rates, due in part to investor uncertainty regarding inflation, and the large demand for long-term funds by both government and private industry. These conditions are expected to persist through most, if not all, of 1981. The bond markets are experiencing wide rate fluctuations on an almost daily basis, making the timing of any issues extremely difficult. A negotiated rather than a competitive bid offering provides greater flexibility to adjust the timing and terms of a proposed offering to meet these changeable market conditions.
2. SDG&E states that under the current volatile market conditions, investors place increased emphasis on the credit worthiness of a borrower, which increases the difficulty for a weaker credit such as SDG&E (Baa/BBB) to raise capital.
3. SDG&E's current financial condition, as represented by its high capital requirements, low interest coverage, and the lowest investment grade credit rating, makes it necessary for its underwriters to engage in pre-offering marketing efforts to ensure a successful sale of SDG&E's Bonds at the lowest effective interest cost. SDG&E believes the competitive bidding process is not conducive to the same quantity and quality of a pre-offering effort, because

the underwriters' salesmen cannot be assured of having anything to sell. That assurance can only be obtained through a negotiated offering. The buildup of investor interest is essential during periods of high interest rates, since investors can readily obtain record yields from stronger credits, which in turn results in reducing the demand for lower rated securities.

4. SDG&E's high level of short-term debt as a percent of total capitalization has been recognized by this Commission in D.92939. This high level of short-term debt reduces the timing flexibility with regard to long-term offerings and makes the timing flexibility available through negotiated offering of greater importance.
5. SDG&E believes that it can sell its Bonds through a negotiated offering at as low a cost as would be obtainable through a competitive bid.

In D.91984 dated July 2, 1980, in Application (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 will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

We also stated in D.91984 that the decision was not to be construed as a blanket prohibition of negotiated sales. The decision merely clarified that our requirement of a "compelling showing"

to gain an exemption constitutes a very high standard of proof. Such a standard requires that utilities, in most instances, proceed initially on a competitive bid basis with the ability to return to the Commission for an exemption if the bids are unacceptable.

We gave notice to utilities who file applications requesting exemption from our competitive bidding rule that they can expect to have the request for a competitive bidding exemption denied, with the application approved on the condition that competitive bidding will be used, and that we may do this absent public hearings. We also stated that if utilities attempt a competitive sale and do not consummate it because the terms are unfavorable, they may petition for modification of the decision authorizing the sale and seek to demonstrate why competitive bidding is not in the public interest.

We do not believe that we have yet reached an optimal solution to this complex problem. We intend to explore the advantages and disadvantages of revisions in the competitive bidding rule to respond to changes in the financial marketplace.

In the present case, we are frankly uncertain whether under current volatile market conditions, unfavorable to the issuer of corporate debt, strict adherence to the competitive bidding rule would prove beneficial. Consequently, for this application only, we will authorize SDG&E to proceed on either a competitive bid, a private placement, or a negotiated bid basis, according to SDG&E's estimation of where the most favorable opportunity lies. We place SDG&E on

notice, however, that if it chooses to pursue the path of a negotiated public offering, we will expect our staff to give exceptionally close and critical scrutiny to the reasonableness of such costs ourselves. We will require SDG&E to provide us with a showing of why it believes that the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers. We will require this showing within a reasonable period of time after the issuance and sale of the proposed Bonds.

Under the circumstances, the Commission finds that SDG&E's request is reasonable and would not be adverse to the public interest. A public hearing is not necessary. The Commission concludes that SDG&E's request should be granted. The following supplemental order should be effective the date of signature to enable SDG&E to issue its new Bonds expeditiously.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. Ordering Paragraph 1 of D.92939 is amended to read as follows:

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

A.60297 RR/KLH/WPS/WPSC

forth in D.38614, dated January 16, 1946, as amended in C.4761, for a private placement, for a negotiated public offering, or for sale by competitive bidding.

2. If the First Mortgage Bonds are sold by a negotiated public offering, San Diego Gas & Electric Company shall file with the Commission, within 30 days after sale, a report setting forth the reason it believes the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers.

A.60297 RR/KLH/WPS/WPSC

3. In all other respects, D.92939 shall remain in full force and effect.

This order is effective today.

Dated JUN. 2 1981, at San Francisco, California.

John E. Boyer
President
Richard D. Grew
Donald W. ...
Walter ...

Commissioners

Commissioner Priscilla C. Grew, being necessarily absent, did not participate in the disposition of this proceeding.