

ORIGINAL

Decision 93490 SEP 1 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Petition of SOUTHERN CALIFORNIA)
 GAS COMPANY for modification of)
 Decision Nos. 92452 and 92710 to)
 Authorize the Issuance and Sale)
 of Not to Exceed \$60 Million of)
 First Mortgage Bonds in Public)
 Offerings effected through Nego-)
 tiated Underwriting or in Negotia-)
 ted Private Placements.)

Application 60768
(Filed July 28, 1981)

O P I N I O N

Under Decision (D.) 92452, dated December 2, 1980 supplemented by D.92710, dated February 18, 1981 in Application (A.) 60005, Southern California Gas Company (SoCal) was authorized, among other things, to issue and sell by means of competitive bidding up to \$130,000,000 aggregate principal amount of its First Mortgage Bonds (New Bonds), in one or more series, prior to December 31, 1981. SoCal issued and sold \$70,000,000 of its authorized New Bonds on February 3, 1981 by competitive bidding procedures.

In this application, SoCal requests authority, under Sections 816 through 818 of the Public Utilities (PU) Code, for a modification of D.92452 and D.92710 for the following:

1. To issue and sell the remaining \$60,000,000 aggregate principal amount of its New Bonds in public offerings effected through negotiated underwriting or in negotiated private placement and

2. To have the sale of this issue or issues exempted from the Commission's competitive bidding rule.

In D.92452, supplemented by D.92710, SoCal has the authority to issue and sell its New Bonds by competitive bidding. This authority remains in full force and effect.

Notice of the filing of the application for modification of D.92452 and D.92710 appeared on the Commission's Daily Calendar of July 29, 1981. No protests have been received.

SoCal believes that the financial flexibility that would be afforded by the authority to effect the sale through negotiated underwritings or in negotiated private placement would enable it to respond to rapidly changing market conditions and would obtain for SoCal the necessary financing on the most favorable available terms and conditions.

SoCal requests an exemption from the Commission's competitive bidding rule. It is within the Commission's power to grant the exemption as it has done from time to time, upon a showing of compelling circumstances. SoCal believes that these compelling circumstances exist.

SoCal set forth various reasons to justify its request to issue and sell its New Bonds by private placement or negotiated public offerings. The reasons cited include the volatility of the market, greater financial flexibility, increased marketing efforts, and

absence of investment banking community fragmentation provided by public offerings effected through negotiated underwriting which may permit public utilities to obtain financing on more favorable terms and conditions than could be obtained by public offerings effected through competitive bidding.

In D.91984, dated July 2, 1980 for the San Diego Gas & Electric Company, in 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 are frankly uncertain whether under current volatile 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 SoCal to proceed on either a competitive bid, a private placement, or a negotiated public offering, according to SoCal's estimation of where the most favorable opportunity lies.

Granting the authorization requested will give SoCal the flexibility to borrow funds more quickly than might otherwise be available in the time frame necessary to complete a secured transaction. The requested authorization will also give SoCal a broader base from which to attract additional kinds of lenders, some of whom lend funds only on an unsecured basis.

The Commission's Revenue Requirements Division has reviewed SoCal's request and has concluded that an exemption from the competitive bidding rule should be granted. Under the circumstances, the Commission finds that SoCal's request is reasonable and not adverse to the public interest.

If SoCal chooses to issue and sell its remaining New Bonds in the amount of up to \$60,000,000 by means of a negotiated public offering or by a private placement, we place it on notice that in its next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized and may result in a disallowance of the interest expense if it is determined that the cost of money incurred was not the most prudent. We will also require SoCal 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 rate-payers. We will require this showing within a reasonable period of time after the issuance and sale of its remaining New Bonds.

SoCal paid the \$24,368.50 fee set by Section 1904.1 of the PU Code when it was authorized to issue and sell up to \$130,000,000 of its New Bonds in regard to D.92452. Since the issuance and sale of its remaining \$60,000,000 of New Bonds are part of this authorization, no additional fee is required for this application.

Findings of Fact

1. SoCal, a California corporation, operates as a public utility under the jurisdiction of this Commission.
2. SoCal has a continuing need for external funds for the purposes set forth in A.60005.
3. The proposed issuance and private placement of SoCal's remaining New Bonds in the amount of up to \$60,000,000 would be for proper purposes.
4. SoCal believes it will be able to issue and sell its remaining New Bonds through public offerings effected through negotiated underwriting or in negotiated private placement upon terms and at a time which SoCal determines to be advantageous to it and its ratepayers.
5. SoCal's authority to issue and sell its New Bonds by competitive bidding remains in full force and effect.
6. SoCal should be authorized to issue and sell its remaining \$60,000,000 of Bonds either by public offerings through a negotiated underwriting, a negotiated private placement, or by competitive bidding.

7. In the event the New Bonds are sold under the Commission's competitive bidding rule, SoCal's request that the period of time required by the rule for notification of an invitation for bids be reduced from five days to one day as granted in D.92710 should apply.

8. The money, property, or labor to be procured or paid for by the proposed debt securities is reasonably required for the purposes specified in the application.

9. There is no known opposition to the application and no reasons 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 proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it is required for these purposes. Proceeds from the security issue may not be charged to operating expenses or income.

The following order should be effective on the date of signature to enable SoCal to issue and sell its New Bonds expeditiously.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company, on or after the effective date of this order and on or before December 31, 1981, may issue, sell, and deliver, at one time or from time to time, in one or more series, the \$60,000,000 of First Mortgage Bonds (New Bonds) remaining unsold of the \$130,000,000 authorized under D.92452, dated December 2, 1980 supplemented by D.92710, dated February 18, 1981. These New Bonds may have a maturity date not to exceed 30 years from their date of issuance in public offerings effected through negotiated underwriting, in negotiated private placement, or alternatively, issued under competitive bidding.

2. The proposed issuance and sales of Southern California Gas Company's New Bonds effected through negotiated underwriting and through negotiated private placement are exempted from the Commission's competitive bidding rule set forth in D.38614, dated January 15, 1946 as amended in Case 47610.

3. Alternatively, Southern California Gas Company may issue and sell its remaining New Bonds by means of a competitive bidding effected by newspaper publication. The period of time, between the publication of an invitation for bids and the opening of bids for the issuance and sales of the New Bonds effected through competitive biddings need not be more than one day.

4. Southern California Gas Company shall apply the proceeds from the sales of its New Bonds to the purposes set forth in A.60005-

5. If the New Bonds are sold by competitive bidding or by negotiated public offering, as soon as available, Southern California Gas Company shall file, with the Commission, three copies of its final prospectus relating to the New Bonds.

6. Southern California Gas Company shall file the reports required by General Order Series 24.

7. Within 30 days after the issuance and sales of its New Bonds, Southern California Gas Company shall file, with the Commission, a report showing why the resulting interest rate and cost

of money to the company were the most advantageous to the company and its ratepayers.

8. In all other respects D.92452, dated December 2, 1980, supplemented by D.92710, dated February 18, 1981, shall remain in full force and effect.

This order is effective today.

Dated SEP 1 1981, at San Francisco, California.

John E. Bryan
President

Richard D. Goodley

Donald W. Fleming

Victor Calvo

Priscilla C. Green
Commissioners