RR/KLH/ARM/WPSC

Decision 93733 NOV 13 1981 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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| Application of San Diego Gas & Electric Company to issue and sell during 1982 not to exceed: (i) 7,000,000 shares of its Common Stock, $5 par value; (ii) 1,600,000 shares of its Preference Stock (Cumulative) without par value; and (iii) $200,000,000 principal amount of First Mortgage Bonds, and to execute one or more Supplemental Indentures. | Application 60933 (Filed September 22, 1981) |

## O P I N I O N

San Diego Gas & Electric Company (SDG&E) requests authority, under Public Utilities (PU) Code Sections 816 through 818 and 851, to issue and sell during 1982 the following:

1. Up to 7,000,000 shares of its Common Stock, $5 par value;

2. Up to 1,600,000 shares of its Cumulative Preference Stock, without par value, by private placement or public sale; and

3.a. Up to $200,000,000 aggregate principal amount of its First Mortgage Bonds (Bonds) in one or more sales;

b. To execute and deliver a Supplemental Indenture with respect to each sale;

c. To sell the Bonds either by competitive bidding, negotiated public offering, or private placement; and

d. To be exempted from the Commission's competitive bidding rule.

Notice of the filing of the application appeared on the Commission's Daily Calendar of September 29, 1981. No protests have been received.

SDG&E, a California corporation, operates as a public utility under the jurisdiction of this Commission. SDG&E provides electric service in portions of Orange and Imperial Counties and electric, gas, and steam service in portions of San Diego County.

On its Statement of Income and Retained Earnings for calendar year 1980, SDG&E reports it generated total operating revenue of $960,443,880 and net income of $52,046,107. For the seven months ended July 31, 1981, SDG&E reports it generated total operating revenue of $645,466,100 and net income of $63,684,892 shown as part of Exhibit A attached to the application.

SDG&E's Balance Sheet as of July 31, 1981, also shown as part of Exhibit A to the application, is summarized as follows:

| Assets | Amount |
|---|---|
| Net Utility Plant | $1,707,710,363 |
| Other Property and Investment | 25,651,588 |
| Current and Accrued Assets | 316,717,407 |
| Deferred Debits | 50,962,677 |
| Total | $2,101,042,035 |
| **Liabilities and Equity** | |
| Common Equity | $ 641,743,956 |
| Preferred/Preference Stock | 213,500,000 |
| Long-Term Debt | 782,274,100 |
| Current and Accrued Liabilities | 395,872,899 |
| Deferred Credits and Reserves | 67,651,080 |
| Total | $2,101,042,035 |

As of July 31, 1981, SDG&E had outstanding $65,756,260 of short-term debt (the proceeds of which were used for capital additions and improvements) and $125,000,000 of Bankers' Acceptances (used to finance fuel oil) totaling $190,756,260.

SDG&E's construction budget for calendar year 1981 amounts to $274,757,000 of which $146,679,000 has been spent. The construction budget for calendar year 1982 has an estimated cost outlay of $326,870,000. A classification of the budgeted construction follows:

| Purpose | 1981 | 1982 |
|---|---|---|
| Electric Production | $146,353,000 | $103,025,000 |
| Electric Transmission | 31,892,000 | 106,590,000 |
| Electric Distribution | 73,887,000 | 85,903,000 |
| Gas and Steam Production, Transmission, and Distribution | 19,438,000 | 24,976,000 |
| Common Plant | 3,187,000 | 6,376,000 |
| Total | $274,757,000 | $326,870,000 |

SDG&E's capital ratios as of July 31, 1981 adjusted to December 31, 1981 to give effect to:

1. The proposed issue and sale of up to $200,000,000 aggregate principal amount of SDG&E's Bonds in one or more series;

2. The proposed issue and sale of up to 1,600,000 shares of SDG&E's Cumulative Preference Stock, without par value, estimated to produce net proceeds up to $40,000,000;

3. The proposed issue and sale of up to 7,000,000 shares of Common Stock, $5 par value, at $13 per share, estimated to produce net proceeds of up to $91,000,000;

4. The retirement of $12,000,000 principal amount of Bonds, Series D, due in April, 1982 (Decision (D.)46823 dated March 11, 1952 in Application (A.)33167);

5. The retirement of $40,000,000 principal amount of Bonds, Series O, due in May, 1982 (D.84283 dated April 1, 1975 in A.55522);

6. The retirement of 4-5/8% Debentures in the principal amount of $375,000 due in January, 1982 (D.57718 dated December 16, 1958 in A.40648);

7. The retirement of 4-1/2% Debentures in the principal amount of $400,000 due in September, 1981 and $400,000 due in September, 1982 (D.67672 dated August 11, 1964 in A.46837);

8. The retirement of $391,544 of 5-1/2% Promissory Notes, due August 31, 1981;

9. The issuance and sale of Cumulative Preference Stock, without par value, in the aggregate principal amount of $32,500,000, due October 20, 1981 (D.92756 dated March 3, 1981 in A.60206);

10. The issuance of 132,239 shares of Common Stock, $5 par value, between August 1 and October 21, 1981 under SDG&E's Employee Savings Plan producing net proceeds of $1,593,946 (D.91431 dated March 18, 1980 in A.59370); and

11. To record the premium of $3,250,000 received on the sale of 1,300,000 shares of Cumulative Preference Stock sold at $2.50 per share over book value

are as follows:

| | July 31, 1981 | Pro Forma |
|---|---|---|
| Long-term Debt | 42.8% | 43.6% |
| Short-term Debt | 10.4 | 8.4 |
| Total Debt | 53.2 | 52.0 |
| Preferred/Preference Stock | 11.7 | 13.4 |
| Common Equity | 35.1 | 34.6 |
| Total | 100.0% | 100.0% |

SDG&E would use the combined net proceeds from the sales of its common stock, preference stock, and Bonds, other than accrued interest, to retire all or a portion of its short-term debt and commercial paper outstanding at the time of the sale or sales; to refund approximately $52,000,000 of its outstanding Bonds, Series D and O, due in 1982; to make payments of $775,000 into the sinking fund for eventual retirement of its outstanding Debentures; and the balance (if any) to reimburse its treasury for funds spent for capital expenditures.

Unreimbursed construction expenditures were $187,459,120 as of July 31, 1981.

SDG&E proposes to issue and sell up to 7,000,000 shares of its Common Stock, $5 par value, in one or more series, during 1982, on a negotiated basis through a nationwide group of underwriters. The underwriters will agree to purchase SDG&E's common stock under a purchase agreement to be entered into with the underwriters' representatives prior to each sale, with the intention that the proposed shares will be offered to the public. The underwriting agreement, when entered into, will be submitted to the Commission.

The price of the proposed shares to be paid to SDG&E by the underwriters shall in no event be less than 90% of the last reported sale price of SDG&E's proposed shares on the New York Stock Exchange prior to the time the price is fixed. No offering of rights to shareholders is contemplated. The sale of 7,000,000 shares of Common Stock, $5 par value, at the assumed price of $13 per share, is estimated to produce net proceeds of $91,000,000.

SDG&E also proposes to issue and sell up to 1,600,000 shares of its Cumulative Preference Stock, without par value, in one or more series, to produce net proceeds not to exceed $40,000,000. SDG&E will sell its Cumulative Preference Stock on a negotiated basis, either through a private placement or by public offering. The sale will be made through a nationwide group of underwriters who will agree to purchase the stock under an underwriting agreement to be entered into between SDG&E and representatives of several underwriters. SDG&E anticipates that the stock will be priced to the public at either $25 per share or $100 per share, with the number of shares to be issued limited to provide up to the aggregate principal amount of $40,000,000. All of the sales will be completed on or before December 31, 1982.

The final terms and conditions for the sale of the Cumulative Preference Stock, including the number of issues, aggregate amount, price and dividend rate, redemption and sinking fund provisions (if any), and number of shares to be issued will be dependent on market conditions prevailing at the time of negotiation. The form of an underwriting agreement for a public offering will be submitted to the Commission prior to the date of issuance.

SDG&E proposes to issue and sell, in one or more series, up to $200,000,000 aggregate principal amount of its Bonds, on or before December 31, 1982, and to execute and deliver a Supplemental Indenture with respect to each sale.

SDG&E also proposes to issue and sell the Bonds either on a competitive bid; on a negotiated basis through a public offering; or by private placement, depending on market conditions existing at the time of the proposed sale, or sales, which are anticipated to occur during 1982.

SDG&E seeks a waiver of the competitive bidding rule established by D.38614, as amended by D.49941 and D.75556, in Case (C.)4761, for 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 1982. The bond markets are experiencing wide rate fluctuations on an almost daily basis, making the timing of any issues extremely difficult. A negotiated offering provides greater flexibility to adjust the timing and terms of a proposed offering to meet these changeable market conditions than what is available through the competitive bid process.

2. Under the current volatile market conditions, investors place increased emphasis on the credit-worthiness of a borrower, which increases the difficulty for those with weak 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 new bonds at the lowest effective interest cost. 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 any securities to sell. That assurance can

be obtained only 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. In addition, a negotiated offering allows the terms and pricing strategy of an issue to be adjusted up to the moment of the actual pricing of the issue. This provides greater assurance of a successful offering at the minimum effective interest cost.

4. Short-term debt as a percent of total capitalization (including short-term debt) was 10.8% as of July 31, 1981. This high level of short-term debt reduces SDG&E's timing flexibility with regard to long-term offerings and makes the timing flexibility available through negotiated offerings of greater importance.

5. SDG&E believes that it can sell the new Bonds through a negotiated offering at a cost at least as low as would be obtainable through a competitive bid.

6. In seeking authority to issue the Bonds by negotiated private placement, SDG&E believes that the terms and conditions of a private placement sale can be tailored to meet the requirements of institutional investors in order to obtain a more favorable interest rate on the Bonds than that available through a public offering.

In D.91984, dated July 2, 1980 for SDG&E in A.59633, we discussed the granting of exemptions from the Commission's 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.

We also stated in D.91984 that the decision was not to be construed as a blanket prohibition of negotiated sales.

We do not believe that we have yet reached an optimal solution to this complex problem.

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 SDG&E to proceed on either a private placement basis, a negotiated public offering, or by competitive bidding, according to SDG&E's estimation of where the most favorable opportunity lies.

The Commission's Revenue Requirements Division has reviewed SDG&E's request and has concluded that an exemption from the Commission's competitive bidding rule should be granted and, alternatively, to grant authority to issue the Bonds under competitive bidding, negotiated public offering, or by private placement.

If SDG&E chooses to issue and sell its Bonds by means of a private placement or a negotiated public offering, 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 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 its Bonds.

The Commission's Revenue Requirements Division has reviewed SDG&E's application and its 1981 and 1982 construction programs and has concluded that the programs are necessary. The Division has no objection to the proposed security issues specified in the application. The Division reserves the right to reconsider the reasonableness of any specific program and construction expenditures in future rate proceedings.

The Revenue Requirements Division of the Commission staff has analyzed the financial data provided by SDG&E. The staff determined that cash generated from internal operations will provide 14% of the capital requirements estimated for 1982. The Division concluded the proposed financing is necessary to help SDG&E meet its capital requirements.

Findings of Fact

1. SDG&E, a California corporation, operates as a public utility under the jurisdiction of this Commission.

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

3. The proposed issuance of up to 7,000,000 shares of SDG&E's Common Stock, $5 par value, to the public through underwriters would be for proper purposes.

4. The proposed sale of up to 1,600,000 shares of SDG&E's Cumulative Preference Stock would be for proper purposes.

5. The proposed sale of up to $200,000,000 of SDG&E's Bonds would be for proper purposes.

6. The proposed Supplemental Indenture(s) would not be adverse to the public interest.

7. The sale of the proposed Bonds should be authorized to be through competitive bidding, or, alternatively, exempted from the requirements of the Commission's competitive bidding rule set forth in D.38614, as amended, for either a negotiated public offering or a private placement sale.

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.

<u>Conclusions of Law</u>

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 issues are for lawful purposes and the money, property, or labor to be obtained from them is required for these purposes. Proceeds from the security issues may not be charged to operating expenses or income.

The following order should be effective on the date of signature to enable SDG&E to issue its securities expeditiously.

<u>O R D E R</u>

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E), on or after the effective date of this order, may issue and sell up to 7,000,000 shares of its Common Stock, $5 par value, in one or more series, on terms and conditions to be negotiated with underwriters.

2. SDG&E, on or after the effective date of this order, may issue and sell up to 1,600,000 shares of its Cumulative Preference Stock, without par value, to produce net proceeds not to exceed $40,000,000, on terms and conditions to be negotiated with underwriters.

3. SDG&E may issue and sell up to $200,000,000 aggregate principal amount of its Bonds, in one or more series during 1982, on terms and conditions to be negotiated as contemplated by the application.

4. The sale by SDG&E of up to $200,000,000 aggregate principal amount of its Bonds, in one or more sales during 1982, is exempted from the Commission's competitive bidding rule set forth in D.38614, dated January 15, 1946, as amended in C.4761, for either a negotiated public offering or a private placement sale.

5. SDG&E 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.

6. SDG&E shall use the net proceeds from the sale of the Common Stock, $5 par value; the Cumulative Preference Stock; and the First Mortgage Bonds for the purposes referred to in the application.

7. Promptly after SDG&E ascertains the underwriting commission and the price to be paid for the Common Stock, $5 par value, the company shall notify the Commission in writing.

8. Promptly after SDG&E ascertains the final terms and conditions for the sale of its Cumulative Preference Stock, the company shall notify the Commission in writing of the number issued, the aggregate amount, price and dividend rate, the redemption and sinking fund provisions (if any), and the underwriting spread.

9. Promptly after SDG&E ascertains the price, interest rate, and other terms pertaining to the First Mortgage Bonds, the company shall notify the Commission in writing.

10. As soon as available, SDG&E shall file with the Commission three copies of its final prospectus pertaining to the Common Stock, $5 par value; Cumulative Preference Stock; and First Mortgage Bonds, respectively.

11. If the Bonds are sold by a private placement or negotiated public offering, within 30 days after their issuance and sale, SDG&E shall file, with the Commission, a report setting forth the reason the company believes the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

12. SDG&E shall file the reports required by General Order Series 24.

*CORRECTION*

# CORRECTION

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HAS BEEN REPHOTOGRAPHED

TO ASSURE LEGIBILITY

8. Promptly after SDG&E ascertains the final terms and conditions for the sale of its Cumulative Preference Stock, the company shall notify the Commission in writing of the number issued, the aggregate amount, price and dividend rate, the redemption and sinking fund provisions (if any), and the underwriting spread.

9. Promptly after SDG&E ascertains the price, interest rate, and other terms pertaining to the First Mortgage Bonds, the company shall notify the Commission in writing.

10. As soon as available, SDG&E shall file with the Commission three copies of its final prospectus pertaining to the Common Stock, $5 par value; Cumulative Preference Stock; and First Mortgage Bonds, respectively.

11. If the Bonds are sold by a private placement or negotiated public offering, within 30 days after their issuance and sale, SDG&E shall file, with the Commission, a report setting forth the reason the company believes the resulting interest rate and cost of money to the company were the most advantageous to the company and its ratepayers.

12. SDG&E shall file the reports required by General Order Series 24.

13. The authority granted by this order to issue securities will be effective when SDG&E pays $145,500, the fee set by PU Code Sections 1904(b) and 1904.1 after taking credits for the retirements of $12,000,000 principal amount of First Mortgage Bonds, Series D, due 1982 and $50,000,000 principal amount of First Mortgage Bonds, Series D, also due in 1982.

Dated NOV 13 1981, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. CREW
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
NOV 13 1981
#145,500.00
By

I CERTIFY THAT THIS DECISION WAS APPROVED BY THE ABOVE COMMISSIONERS TODAY.

Joseph E. Bodovitz, Executive Director