

ORIGINAL

Decision 97-11-012 November 5, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN)
DIEGO GAS & ELECTRIC COMPANY U-903-E,)
for authority to extend its Short-Term)
Borrowing Authorization of an aggregate)
amount not to exceed \$200,000,000,)
through December 31, 2002, in addition)
to that amount otherwise authorized by)
Public Utilities Code Section 823.)

Application 97-08-051
(Filed August 20, 1997)

O P I N I O N

Summary of Decision

This decision grants San Diego Gas & Electric Company (SDG&E) the authority requested in Application (A.) 97-08-051 (Application).

SDG&E requests pursuant to §§ 816 through 830 of the Public Utilities (PU) Code authority for the following:

1. to extend the period of short-term debt authorization previously granted by Decision (D.) 92-11-059 in A.92-08-006, as modified, of an aggregate principal amount not to exceed \$200,000,000 up to and including December 31, 2002. This request is in addition to the aggregate principal amount of notes otherwise authorized without Commission approval by PU Code § 823.
2. to obtain an exemption from the Commission's Competitive Bidding Rule with respect to the issuance of commercial paper and short-term notes.
3. to provide that SDG&E may ask for a higher short-term borrowing authorization if the need arise before December 31, 2002.

4. to provide that the short-term borrowing authorization is not subject to the fee required by PU Code § 1904(b).

Notice of the filing appeared on the Commission's Daily Calendar of August 27, 1997. SDG&E served copies of the Application on the parties in A.92-08-006. No protests have been received.

Background

SDG&E, a California corporation, operates as a public utility subject to the jurisdiction of this Commission. SDG&E is engaged principally in the business of providing electric service in portions of Orange County, and electric and gas service in portions of San Diego County.

D.92-11-059 authorized SDG&E until December 31, 1997, to use short-term borrowings up to an aggregate amount not to exceed \$200,000,000; exempted SDG&E from the requirements of the Commission's Competitive Bidding Rule for the issuance of commercial paper and short-term notes; and required SDG&E to file monthly reports in compliance with General Order (G.O.) 24.

D.94-09-074 modified D.92-11-059 to allow SDG&E to file quarterly reports in lieu of the monthly reports required by G.O. 24.

D.92-11-059 as modified will expire on December 31, 1997. We refer to this decision in this proceeding because SDG&E is requesting authority for the same amount of short-term borrowings until December 31, 2002. Pursuant to SDG&E's supplemental data to the Application, all interested parties in A.92-08-006 have been notified of this Application.

SDG&E's Statement of Income and Retained Earnings for the six months ended June 30, 1997, shown as Exhibit A to the Application, shows total operating revenues of \$986,528,093 and net income of \$96,831,833.

Also shown as part of Exhibit A is SDG&E's Balance Sheet as of June 30, 1997, summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$2,987,432,149
Other Property and Investments	366,798,747
Current and Accrued Assets	446,249,807
Deferred Debits	<u>1,013,671,139</u>
Total Assets and Other Debits	\$4,814,151,842
 <u>Liabilities and Equity</u>	
Proprietary Capital	\$1,441,361,991
Long-Term Debt	1,174,186,162
Other Noncurrent Liabilities	212,759,474
Current and Accrued Liabilities	638,224,686
Deferred Credits	<u>1,347,619,529</u>
Total Liabilities and Equity	\$4,814,151,842

Description of Financing and Manner of Issuance

SDG&E states in the Application that its short-term borrowing authorization helps maintain its flexibility in the timing of security offerings and should maintain its capability to quickly expand short-term borrowings in the event of delays or cancellations of security offerings. Because its current authorization will expire December 31, 1997, SDG&E by this Application wishes to maintain its short-term borrowing authorization not exceeding \$200,000,000, for another five years in addition to the aggregate principal amount of notes otherwise authorized without Commission approval by PU Code § 823(c).

SDG&E anticipates it may be necessary for it to borrow from time to time on a short-term basis up to \$278,000,000, which amount approximates but does not exceed its current authorization of \$200,000,000 plus the allowable 5% outstanding balance of short-term debt pursuant to PU Code § 823(c).

Based on SDG&E's capitalization on June 30, 1997, the 5% allowable short-term debt amounts to approximately \$130,800,000. Effectively, SDG&E's estimated \$278,000,000 total outstanding balance of short-term debt at any one time amounts to 10.63% of

total capitalization of \$2,615,548,153 or 5.63% in excess of the amount provided in PU Code § 823(c). Accordingly, SDG&E's current short-term debt authority plus the 5% allowable amount of short-term debt is sufficient to cover its total requirements of \$278,000,000.

PU Code § 823(b) states that a public utility may issue notes for proper purposes, payable at period of not more than twelve months after the date of the issuance of the notes without the consent of the Commission. PU Code § 823(c) provides that notwithstanding the provisions of subdivision (b), the electric utilities should obtain the consent of the Commission should their short-term borrowings exceed 5% of the par value of the other securities then outstanding.

The Accounting and Finance Branch advises us that SDG&E's request for short-term borrowing authorization through December 31, 2002, raises no questions that should dissuade us from giving favorable consideration to the authority requested. D.82-12-011, D.87-11-040, and more recently D.92-11-059 as modified, granted SDG&E authorization to go beyond the 5% limit prescribed in PU Code § 823(c). The action prescribed in this instance will not change or alter SDG&E's \$200,000,000 short-term borrowing authority granted in D.92-11-059. Having explicitly determined the \$200,000,000 amount as reasonable previously, we see no reason to object to it at this time and will allow SDG&E the same amount of authorization.

The Commission has considered the Accounting and Finance Branch's recommendation, and finding it reasonable, will adopt it as stated above.

In recent decisions, the Commission authorized refunding of previously issued short-term debt subject to certain limitations. In Southern California Edison Company's (Edison) D.96-07-054, we noted our concern about the possibility of utilities' maintaining excessive levels of short-term debt for extended periods, and placed on Edison a restriction that it maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other securities then outstanding at least once every twelve months. Our concerns apply

equally in SDG&E's situation, and we will apply the same restriction to its request.

For purposes of this Application we will require that SDG&E maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other securities¹ then outstanding at least once every twelve months.

SDG&E states in the Application that it does not expect an increase in its short-term borrowing needs in addition to that described above prior to December 31, 2002. However, due to uncertainty regarding the time and amount of rate relief, the timing and amounts of specific long-term or permanent financing, and the financial impact of any unforeseen contingencies, SDG&E requests the ability to apply to the Commission for additional short-term borrowing authorization if the need should arise before December 31, 2002.

We note herein that SDG&E may require additional authorization and that the \$200,000,000 short-term authority in excess of the amount provided in PU Code § 823(c) in this decision in no way inhibits SDG&E from seeking authorization at a future time should the need arise.

Competitive Bidding Rule

SDG&E requests exemption from the Competitive Bidding Rule for its proposed issuance of commercial paper and short-term notes.

In Resolution F-616, dated October 1, 1986, we set forth our current policy regarding exemption from Competitive Bidding Rule. Exhibit A to Res. F-616 states, "Securities privately placed with specific lenders and bank term loans obviously must be negotiated... Variable interest rate debt securities are normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule." Moreover, notes and variable rate debt securities are sold

¹ Long-term debt, preferred stock and common stock.

through a placement agent on a reasonable efforts basis in a manner analogous to that used for issuing commercial paper.

SDG&E states in the Application that its short-term borrowings will be evidenced by its commercial paper, including short-term promissory notes, and other credit agreements with various banks or other financial institutions or companies. These borrowings are anticipated to be unsecured and at competitive rates.

SDG&E's request for exemption from the Competitive Bidding Rule raises no questions that should dissuade us from giving favorable consideration to the matter. Accordingly, SDG&E is exempted from the Competitive Bidding Rule in connection with this authorization.

Construction Budget

SDG&E's estimated construction budgets for calendar years 1997, 1998, and 1999, included as supplemental data to the Application, are as follows:

	(\$ in millions)		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Electric Production	24.3	37.0	31.7
Electric Transmission	14.3	7.7	8.6
Electric Distribution	122.8	129.4	137.6
Gas	43.5	42.5	43.9
Steam	0.0	0.0	0.0
Common	<u>31.2</u>	<u>20.5</u>	<u>9.1</u>
Sub-Total	236.1	237.1	230.9
Less: Allowance for funds used during construction	<u>7.1</u>	<u>6.8</u>	<u>6.8</u>
Total funds used/required for construction expenditures	229.0	230.3	224.1

Capital Ratios

SDG&E's capital ratios as of June 30, 1997, shown as supplemental data to the Application, are presented below as recorded and adjusted to give pro forma effect to the transactions that follow:

	(\$ in thousands)			
	<u>Recorded</u>		<u>Pro-Forma</u>	
Long-Term Debt	1,244,429	45.8%	1,429,189	47.2%
Short-Term Debt	<u>33,919</u>	<u>1.2%</u>	<u>33,919</u>	<u>1.1%</u>
Total Debt	1,278,348	47.0%	1,463,108	48.3%
Preferred Stock	103,162	3.8%	227,162	7.5%
Common Equity	<u>1,337,887</u>	<u>49.2%</u>	<u>1,337,887</u>	<u>44.2%</u>
Total Capitalization	2,719,397	100.0%	3,028,157	100.0%

1. The issuance and sale of up to \$138,480,000 of long-term debt authorized but unissued (D.93-09-069).
2. The issuance and sale of up to \$71,280,000 of long-term debt authorized but unissued (for refinancing only) (D.96-05-066).
3. The planned refinancing of \$25,000,000, Series II Industrial Development Bonds in 1997.
4. The issuance and sale of up to \$124,000,000 of preferred stock authorized but unissued (\$24,000,000 per D.92-05-061 and \$100,000,000 per D.93-09-069).
5. SDG&E has authorized but unissued amounts of its common stock investment plan, the long-term incentive plan, and the employee savings plan. With the formation of a holding company in 1995, there is no longer any SDG&E common stock. However, the SDG&E authorized but unissued amounts are being maintained in the event that SDG&E common stock is created in the future.

SDG&E's ratesetting matters are normally reviewed during its Performance Based Ratemaking filings. We make no finding in this decision of the reasonableness of SDG&E's projected capital budget and capital ratios.

Cash Requirements Forecast

SDG&E's estimated cash requirements forecasts for 1997 through 1999 are summarized as follows:

	(\$ in millions)		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Funds for Construction	229	230	224
Maturing Long-Term Debt	0	0	0
Long-Term Debt Refinanced	25	0	0
Preferred Stock Redemptions	0	0	0
Short-Term Debt Outstanding Beginning of the Year	<u>0</u>	<u>(25)</u>	<u>(36)</u>
Sub-Total	254	205	188
Less: Estimated Cash Applied from Internal Sources	<u>254</u>	<u>241</u>	<u>247</u>
Additional Funds from External Sources	0	(36)	(59)

SDG&E's forecasted cash requirements indicate that funds from internal sources would be sufficient to cover its total cash requirements for 1997 through 1999.

Use of Proceeds

SDG&E states in the Application that the proceeds from the short-term borrowings will be used to: (i) finance SDG&E's fuel inventories; (ii) temporarily finance (a) additions and extensions of utility plant, (b) undercollections in balancing accounts, and (c) retirements, tenders, calls or other refunding of long-term debt or preferred stock; and (iii) to satisfy other short-term cash needs that may arise from time to time.

Upon order of the Commission and for proper cause, PU Code § 818 allows the use of proceeds from the issue of debt security for purposes reasonably required in the operation of a utility.

We will approve the use of the proceeds as requested in the Application.

Findings of Fact

1. SDG&E's request to use \$200,000,000 short-term borrowings in excess of the amount otherwise authorized under PU Code § 823(c) until December 31, 2002 would be for proper purposes and would not be adverse to the public interest.

2. SDG&E's Application is not for an additional or "new money" issue but a renewal of its current short-term authorization which will expire December 31, 1997.

3. Requiring SDG&E to maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other securities then outstanding at least once every twelve months is reasonable. It would still allow SDG&E flexibility to use short-term borrowings when market conditions for long-term debt are not favorable.

4. SDG&E's proposed issue of commercial paper and short-term promissory notes is exempt from the requirements of the Competitive Bidding Rule.

5. The Commission does not by this decision determine that the capital budget, cash requirements forecast, and capital ratios presented herein are necessary or reasonable for ratemaking purposes.

6. Notice of the filing of the Application appeared on the Commission's Daily Calendar of August 27, 1997, and no protests have been received. There is no known opposition to the Application and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The proposed short-term borrowings are for lawful purposes and the money, property or labor to be obtained by the short-term borrowing authorization is required for these purposes.

3. This decision will take effect January 1, 1998, and will take over SDG&E's short-term borrowing authorization whereby a fee has been paid to the Commission. Accordingly, there is no fee due or payable with respect to this Application.

4. The Application should be granted to the extent set forth in the order that follows.

5. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E), on or after January 1, 1998 and up to and including December 31, 2002, may issue short-term obligations in the form of promissory notes and commercial paper in the aggregate principal amount up to \$200,000,000 outstanding at any one time, upon terms and conditions substantially consistent with those set forth or contemplated in Application 97-08-051 (Application). This authorization is in addition to the aggregate principal amount of notes otherwise authorized without Commission approval by Public Utilities Code § 823(c).

2. SDG&E shall apply the net proceeds from the sale of its short-term obligations to the purposes set forth in the Application.

3. SDG&E's request for exemption from the Competitive Bidding Rule with respect to issues of commercial paper and short-term promissory notes is granted.

4. On or before the 25th day of the month following each quarter, SDG&E shall file a statement for the preceding quarter showing all receipts and disbursements pursuant to this order.

5. The Application is granted as set forth above.

A.97-08-051 ENERGY/RHG

6. Application 97-08-051 is closed.

This order is effective today.

Dated November 5, 1997, at San Francisco, California.

P. GREGORY CONLON
President

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners