

ENERGY/RHG

Decision 00-01-016 January 6, 2000

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & ELECCTRIC)
 COMPANY U-902-M, (1) to issue, sell, and)
 deliver one or more series of Debt Securities, to use)
 credit enhancements, and to enter into interest rate)
 caps, collars and swaps and to guarantee the)
 obligations of others with respect to the issuance of)
 certain tax-exempt Debt Securities, all for the sole)
 purpose of refunding or rolling over at maturity)
 previously issued Debt Securities, the total)
 aggregate principal amount of such indebtedness)
 and guarantees not to exceed \$300,000,000; to)
 execute and deliver one or more indentures; to sell,)
 lease, assign, mortgage, or otherwise dispose of or)
 encumber utility property; and for an exemption)
 from the Commission's Competitive Bidding Rule;)
 (2) to extend the expiration date of \$138,480,000 of)
 Debt Securities and \$100,000,000 of Preferred)
 Stock previously authorized as "new money" by)
 The Commission; and (3) to provide for an)
 "evergreen provision" for redemptions, repurchases)
 and maturities of Debt Securities and Preferred)
 Stock.)
 _____)

Application 96-03-053
(Petition for Modification
filed November 19, 1999)

SUPPLEMENTAL OPINION

Summary of Decision

This decision grants San Diego Gas & Electric Company (SDG&E) the authority requested in its petition for modification of Decision (D.) 96-05-066 (Petition).

Notice of the filing appeared on the Commission's Daily Calendar of November 24, 1999. No protests have been received.

Pursuant to Rule 47 of the Commission's Rules of Practice and Procedure, SDG&E seeks to extend certain periods of time related to the authority granted in D.96-05-066 and to increase the refunding authority provided therein from \$300 million to \$500 million.

SDG&E states in the Petition that at the time D.96-05-066 was rendered, the authority granted therein was sufficient for SDG&E's purposes, and any concern with regards to the effective period of the decision, was not an issue. Additionally, it was not until the last six months of this year that SDG&E recognized a need to expand its refunding authorization from \$300 million to \$500 million. Necessarily, SDG&E's request for modification of D.96-05-066 was not known within one year of the effective date of D.96-05-066.

D.96-05-066 dated May 22, 1996, in Application (A.) 96-03-053, granted SDG&E among other things, and upon terms and conditions substantially consistent with those set forth in the Application, the following:

Ordering Paragraph 1(a) - to issue, sell and deliver one or more series of first mortgage bonds, debentures, overseas indebtedness, foreign securities, medium-term notes, to enter into loans (collectively, Debt Securities) and/or to guarantee unconditionally or otherwise secure the obligations of one or more political subdivisions in respect of their issuance of debt for facilities qualifying for tax-exempt financing under federal law in an aggregate principal amount not to exceed \$300,000,000, for the sole purpose of refunding or rolling over at maturity previously issued debt securities.

Ordering Paragraph 4 - to use "evergreening" for any issuance of Debt Securities and Preferred Stock for an initial term of five years from the effective date of D.96-05-066, unless suspended or extended by the Commission.

Ordering Paragraph 15 - to extend the authority granted to SDG&E by D.93-09-069 until December 31, 1999.

Modification Sought

The Petition requests four modifications be made to D.96-05-066:

1. Ordering Paragraph 1 of D.96-05-066 is proposed to be modified as follows "...upon terms and conditions substantially consistent with those set forth or contemplated in Application 96-03-053 (Application) except that this order shall be effective for an indeterminate period of time."
2. Ordering Paragraph 1(a) of D.96-05-066 is proposed to be modified as follows "...in an aggregate principal amount not to exceed \$500,000,000,

for the sole purpose of refunding or rolling over at maturity previously issued Debt Securities.

3. Ordering Paragraph 15 of D.96-05-066 is proposed to be modified as follows "The authority granted to SDG&E by D.93-09-069, is modified to extend the period of authorization for an indeterminate period of time..."
4. Extension of the evergreening authority from May 22, 2001 until May 22, 2005 in order to have the flexibility needed to take advantage of market opportunities or react to changing operating circumstances.

DISCUSSION

SDG&E states in the Petition that there is some ambiguity with regard to whether the ordering paragraphs set forth in D.96-05-066, and the authorizations provided therein, terminate as of December 31, 1999. There is no such termination provision in the ordering paragraphs, or any language stating such in the body of the decision itself. However, ordering paragraph 1 states that SDG&E is authorized to take the actions set forth in the order upon terms and conditions substantially consistent with those contemplated in the Application. In the Application, on page 17, SDG&E did request the Commission for an order to be effective through December 31, 1999.

We note herein that although A.96-03-053 originally requested an effective date of issue through December 31, 1999, it was the intent of D. 96-05-066, for purposes of expediency, timing flexibility, and to minimize utility and staff workload, to allow SDG&E the authority to issue \$300,000,000 Debt Securities without any time limitation. The authority is intended to remain in full force and effect until the full amount of the authorization has been issued or utilized. However, in order to clarify this issue, and to allow SDG&E to exercise the authorization provided in D.96-05-066 for the foreseeable future, we will modify the language in the first ordering paragraph of D.96-05-066 as proposed by SDG&E.

SDG&E states in the Petition that with the remaining authority under D.96-05-066 (\$46.28 million¹), the remaining authority under D.93-09-069, as modified by D.96-05-066 (\$138.48 million of long-term debt² and \$100 million of preferred stock³), and SDG&E's

¹ Authorized as new money for the sole purpose of refunding or rolling over at maturity previously issued debt securities.

² Authorized as new money to finance construction expenditures, acquisition of property, and the retirement or refunding of previously issued securities.

evergreening authority, the granting of this Petition would place SDG&E in a synchronous position and provide it with the ability to use its evergreening authority or issue either debt or equity securities, at sufficient quantities to address its external financing requirements into the new millennium.

SDG&E plans to invest nearly \$300 million per year in property, plant, and equipment during the next several years. SDG&E will place in service new electric and gas distribution facilities to serve its rapidly growing customer base, as well as upgrade older distribution system components. SDG&E states in the Petition that the existing \$138.48 million of long-term debt and \$100 million of preferred stock would be sufficient to supplement internally-generated funds in financing their capital spending plan.

Out of the remaining \$46.28 million Debt Securities under D.96-05-066, SDG&E anticipates using \$27.6 million to roll over its first mortgage bond series MM on June 15, 2002. In addition, SDG&E anticipates that it may have to refinance the transmission-related portions of its outstanding industrial development bonds (IDB), approximated at \$168 million, should the IDB interest become taxable to stockholders. Lastly, SDG&E is examining the possibility of refinancing certain high-coupon series in its debt portfolio. Although no action is currently scheduled, SDG&E anticipates that such refinancings could take place in the near future and involve up to \$50 million in principal.

When combined with the existing \$46.28 million of remaining authority under D.96-05-066, an increase of \$200 million to SDG&E's refunding authority would be sufficient to meet the utility's refinancing needs for the foreseeable future.

In accordance with the Petition, SDG&E states that it has not engaged in any evergreen refinancings since being granted its current 5-year evergreening authority. The ability to engage in evergreen refinancings will provide SDG&E with greater timing flexibility to take advantage of low interest rates and market opportunities to refinance existing debt as well as to issue new debt securities when maturities occur. Secondly, without the availability of evergreen refinancing authority, SDG&E's new financings would utilize new debt authority or require the filing of new debt applications. Another benefit of the evergreening authority is the reduction of the administrative costs to the utilities and the commission in connection with

³ Authorized as new money to finance construction expenditures, acquisition of property, and the retirement or refunding of previously issued securities.

preparing, filing and reviewing such applications. See Guideline (2) of the Evergreening Guidelines (D.93-12-022, Appendix B.p.1).

Evergreening provides a utility pre-authorization to issue securities for the purpose of refinancing securities at maturity, upon mandatory redemption, upon repurchase for mandatory sinking fund requirements, or upon optional refinancing to reduce financing costs, without corresponding new issue amounts being charged against Commission authorizations for "new money" securities. Evergreening is not intended to facilitate changes in a utility's capital structure or in the nature of the underlying assets being financed, or to expand the permitted uses of proceeds under the PU Code. Debt may be replaced only with debt, preferred stock with preferred stock, and common stock with common stock.

Guideline (4) of the Evergreening guidelines states that any evergreen authorization shall have an initial term of no more than five years, unless suspended or extended by the Commission. This sunset provision was intended to permit the Commission and interested parties to re-evaluate the usefulness of the evergreen concept, and to enlarge or limit a specific authorization as experience may suggest. Absent SDG&E's use of its evergreening authority, the Commission does not have actual evergreening information at this time to make a re-evaluation.

However, we will grant SDG&E's request for extension of time of its evergreening authority in order to facilitate compilation of significant data which may be used for future review of the usefulness of the evergreen concept (true to the intent of the Evergreening Guideline's 5-year sunset provision).

SDG&E's Petition raises no questions that should dissuade us from giving favorable consideration to the authority requested. Although it is staff's opinion that D.96-05-066 is in effect until the full authority is used, we will, in conjunction with SDG&E's Petition, order in this decision, that SDG&E may issue its remaining authority and the additional authority for \$200,000,000 for an indeterminate period until the full amounts are issued.

We note herein, as we did in D.96-05-066, that we are granting the additional \$200,000,000 debt under the conventional "new money" authorization for refinancing. As such, this amount shall be subject also to the restrictions placed on Debt Securities appearing in D.96-05-066 and not to the restrictions applicable to evergreen financings. We are cognizant

that SDG&E wishes to have the flexibility to determine whether to issue securities under the evergreen authorization or under a "new money" authorization.

Pursuant to Public Utilities (PU) Code Section 1904(b), there is no fee applicable to the additional \$200,000,000 long-term debt issue because it is for the refinancing of prior outstanding indebtedness for which a fee has previously been paid.

SDG&E's request for an extension of its evergreening term up to May 22, 2005 is reasonable and is not contrary to the terms and conditions for evergreening authority. Having explicitly determined the sunset provision of five years, unless suspended or extended by the Commission as reasonable previously, we see no reason to object to SDG&E's extension of time and will allow it to continue as specified below (effectively an extension of 4 years). In D.97-12-038 the Commission granted Pacific Gas and Electric Company (PG&E) an extension of 2 years and 7 months on its evergreening authority⁴.

For purposes of this Petition, we will extend the evergreen authorization granted in D.96-05-066 to May 22, 2005. The Commission reserves the right to make a full assessment and measurement of evergreening at a future date.

Construction Budget

SDG&E's construction budgets are as follows:

	(\$ millions)		
<u>Item</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Electric transmission	33	41	15
Electronic distribution	185	192	195
Gas	41	38	36
Common	<u>36</u>	<u>23</u>	<u>21</u>
Subtotal	295	294	267
Less: Allowance for funds used during construction (AFUDC)	<u>5</u>	<u>5</u>	<u>5</u>
Total funds required for Construction expenditures	<u>290</u>	<u>289</u>	<u>262</u>

⁴ PG&E had not engaged in any evergreen refinancings at that time and claimed that the flexibility to capture cost savings from timely refinancing of securities would reduce administrative costs and result in ratepayer savings through lower interest costs.

We will not make a finding in this decision on the reasonableness of SDG&E's estimated construction program. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate cases.

Cash Requirements Forecast

SDG&E's estimated cash requirements forecasts for 2000 through 2002 are summarized as follows:

	(\$ millions)		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Funds for Construction	295	294	267
Maturing long-term debt	-	-	28
Long-term debt refinanced	168	50	-
Short-term debt (beginning balance)	<u>(20)</u>	<u>(22)</u>	<u>(12)</u>
Subtotal	443	322	283
Less: Estimated cash available from internal sources	<u>(227)</u>	<u>(244)</u>	<u>(232)</u>
External funds required	<u>216</u>	<u>78</u>	<u>51</u>

SDG&E's forecasted cash requirements indicate that it would require additional funds from external sources amounting to a total of \$345 million for 2000, 2001, and 2002.

Capital Ratios

SDG&E's capital ratios as of September 30, 1999, submitted as supplemental information to the Petition, are presented below as recorded and adjusted to give pro forma effect to the transactions that follow:

	(\$ thousands)			
	<u>Recorded</u>		<u>Pro-Forma</u>	
	Amount	Percentage	Amount	Percentage
Long-term debt	961,497	41.0%	1,099,977	42.5%
Short-term debt	180	0.0%	180	0.0%
Preferred stock	103,475	4.4%	203,475	7.9%
Common equity held by Sempra Corp.	<u>1,282,799</u>	<u>54.6%</u>	<u>1,282,799</u>	<u>49.6%</u>
Total	<u>2,347,951</u>	<u>100.0%</u>	<u>2,586,431</u>	<u>100.0%</u>

1. Issuance of \$138,480,000 of long-term debt authorized but unissued (D.93-09-069, as extended by D.96-05-066).
2. Issuance of up to 246,280,000 of additional long-term debt for refunding and rollover purposes (\$46.3 million remaining from \$300 million originally authorized by D.96-05-066 plus \$200 million requested in the Petition) to refinance the transmission portion of Industrial Development Bond series OO, NN, PP, and SS, roll over maturing First Mortgage Bond series MM, and refund certain high-coupon bond series.
3. Issuance of \$100,000,000 of preferred stock authorized but unissued (D.93-09-069, as extended by D.96-05-066).

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Because of the filing date of the Petition and the time allowed for responses under Rule 47(f) of the Rules of Practice and Procedure, it was not possible for the Commission to issue an order prior to December 31, 1999, the expiration date of D.96-05-066. Therefore, our action on this matter will be effective as of January 1, 2000, nunc pro tunc. SDG&E is directed to make future similar filings early enough to allow us to act before its financing authority have lapsed.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to PU Code Section 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

We approve SDG&E's Petition in this order.

Findings of Fact

1. SDG&E's Petition would be for proper purposes and would not be adverse to the public interest.
2. SDG&E has a need for external funds for the purposes set forth in the Petition.
3. Guideline (4) of the Evergreening Guidelines states that any evergreen authorization shall have an initial term of no more than five years; unless suspended or extended by the Commission.
4. The Commission reserves the right to make a full assessment and measurement of evergreening at a future date.
5. SDG&E may have a window of opportunity to refinance and retire existing debt and achieve thereby significant interest savings that would ultimately benefit its ratepayers through a lower cost of capital.
6. The proposed extension of time without limitation of the authority granted under D.96-05-066, until the remaining debt and preferred stock authorities are ultimately utilized (excluding the evergreening authority), would be for proper purposes and would not be adverse to the public interest.
7. The Commission does not by this decision determine that SDG&E's construction budget, cash requirements forecast, and capital ratios are necessary or reasonable for ratemaking purposes.
8. Notice of the filing of the Petition appeared on the Commission's Daily Calendar of November 24, 1999, and no protests have been received. There is no known opposition to the Petition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The Petition should be granted to the extent set forth in the order that follows.
3. This authorization is not a finding of the reasonableness of the proposed transaction, nor does it indicate the amount to be included in a ratemaking proceeding.
4. Pursuant to PU Code Section 1904(b), there is no fee applicable to the proposed additional authorization because it is for the refinancing of prior outstanding indebtedness for which a fee has previously been paid, or to extend the period for which it is authorized to use its authority.
5. The following order should be effective on the date of signature.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. The authority granted to San Diego Gas & Electric Company (SDG&E) by Decision (D.) 96-05-066 is modified as shown below:

(a) Ordering Paragraph 1 is modified to read as follows:

San Diego & Electric Company (SDG&E), on or after the effective date of this order, is authorized to do the following, upon terms and conditions substantially consistent with those set forth or contemplated in Application 96-03-053 (Application) except that this order shall be effective for an indeterminate period of time:

(b) Ordering Paragraph 1(a) is modified to read as follows:

To issue, sell and deliver one or more series of first mortgage bonds, debentures, overseas indebtedness, foreign securities, medium-term notes, to enter into loans (collectively, Debt Securities) and/or guarantee unconditionally or otherwise secure the obligations of one or more political subdivisions (Authority) in respect of their issuance of debt for facilities qualifying for tax-exempt financing under federal law (Eligible Facilities) in an aggregate principal amount not to exceed \$500,000,000, for the sole purpose of refunding or rolling over at maturity previously issued Debt Securities;

(c) Ordering Paragraph 15 is modified to read as follows:

The authority granted to SDG&E by D.93-09-069, is modified to extend the time period of authorization for an indeterminate period.

2. The authority granted to SDG&E by D.96-05-066, in reference to evergreening authority, is amended to extend the period of authorization until May 22, 2005.
3. SDG&E's petition for modification of D.96-05-066 is granted as set forth above.
4. In all other respects, D.96-05-066 and D.93-09-069 remain in full force and effect.

This supplemental order is effective today.

Dated January 6, 2000, at San Francisco, California.

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
CARL W. WOOD
Commissioners

I abstain.

LORETTA M. LYNCH
Commissioner