

Decision 02-12-067 December 19, 2002

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN DIEGO GAS & ELECTRIC COMPANY, for authority to Extend its Short-Term Borrowing Authorization of an aggregate amount not to exceed \$200,000,000, through December 31, 2007, in addition to that amount otherwise authorized by Public Utilities Code Section 823.

Application 02-06-021
(Filed June 11, 2002)

O P I N I O N

Summary

This decision grants San Diego Gas & Electric Company (SDG&E) the authority requested in Application (A.) 02-06-021 (Application). This authority shall not be used to fund inter-corporate borrowings.

Pursuant to §§ 816 through 830 of the Public Utilities (PU) Code, SDG&E requests authority until December 31, 2007 to use its short-term debt authorization previously granted by Decisions (D.) 92-11-059 as extended by D.97-11-012, and superceded by D.01-02-011, of an aggregate principal amount not to exceed \$200,000,000 that currently has a maturity date of December 31, 2002. This request is in addition to the aggregate principal amount of notes otherwise authorized without Commission approval by § 823 of the PU Code.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of June 20, 2002. No protests have been received.

Background

SDG&E's \$200,000,000 short-term debt authorization was first granted in D.92-11-059 dated November 23, 1992 in A.92-08-006. The use of proceeds indicated in D.92-11-059 includes: (i) financing of fuel inventories; (ii) temporary financing of (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.

Subsequently, D.97-11-012 extended the authority granted in D.92-11-059 through December 31, 2002¹.

D.01-02-011 dated February 8, 2001 in A.00-11-025 authorized SDG&E to issue \$800,000,000 of additional debt to finance the undercollection in its Energy Rate Ceiling Revenue Shortfall Account (ERCSRA). That account is now known as the Energy Revenue Shortfall Account (ERSA). D.01-02-011 also authorized SDG&E to use \$200,000,000 of the \$800,000,000 of additional debt for the purposes authorized by D.92-11-059 as extended by D.97-11-012, but only to the extent that SDG&E does not need the \$200,000,000 to finance its ERSA undercollection. D.01-02-011 denied SDG&E's request to finance its ERSA undercollection with debt secured by a pledge of SDG&E's property, plant, equipment, and other assets.

¹ As of June 30, 1997, SDG&E's 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).

D.01-02-011 superseded the authority granted under D.92-11-059 as extended by D.97-11-012, stating in Ordering Paragraph No. 5:

SDG&E's authority to issue short-term debt pursuant to D.97-11-012 is cancelled. SDG&E may use \$200 million of [the \$800 million of short term and long term] debt authorized by Ordering Paragraph 1 for the purposes authorized by D.97-11-012 through December 31, 2002, but only to the extent that SDG&E does not need this \$200 million to finance its ERCSRA undercollection.

D.01-02-011 also granted SDG&E to report on a quarterly basis the information required by General Order (GO) 24-B with respect to any debt issued pursuant to D.01-02-011 with the provision that SDG&E shall report this information on a monthly basis if directed to do so by Commission staff.

SDG&E filed a petition to modify D.01-02-011 on February 14, 2001 and filed a supplement to that petition on March 22, 2002.

On June 6, 2002, the Commission issued D.02-06-024, which granted in part the petition filed by SDG&E on February 14, 2001 and the supplement to its petition filed on March 22, 2002 to modify D.01-02-011. The authority requested by SDG&E in its petition and supplement and granted by D.02-06-024 includes authority under § 816 et seq. of the PU Code to issue \$400,000,000 of additional debt to finance the ERSA (in lieu of the \$800,000,000 authorized by D.01-02-011), and authority under § 851 to issue debt secured by a mortgage on SDG&E's property. Most importantly to the instant application, D.02-06-024 stated:

We believe, in this case that SDG&E makes a valid case for the issuance of secured debt versus unsecured debt and for a reduction from \$800 million to \$400 million. While the ERSA balance at February 28, 2002 is \$346 million, we are granting approval of \$400

million knowing full well that SDG&E may need less. In addition, this decision does not modify Ordering Paragraph 5 of D.01-02-011 in any manner. Thus, until December 31, 2002, SDG&E may use \$200 million of short-term debt authority (of its \$400 million) for the purposes authorized by D.97-01-012, to the extent not needed to finance its ERSA undercollection.

Discussion

SDG&E does not anticipate that its short-term debt requirements prior to December 31, 2007 will exceed \$200,000,000 but due to uncertainty regarding the timing and amount of rate relief, the availability of future long-term or permanent financing, and the financial impact of further industry restructuring would like to retain the ability to apply to the Commission for additional short-term borrowing authorization if the need arises before December 31, 2007.

This Application seeks authority until December 31, 2007 to use \$200,000,000 of short-term debt authority for the purposes authorized by D.97-11-012, as modified by D.01-02-011 and D.02-06-024 to the extent that SDG&E does not need such amount to finance its ERSA undercollection.

Short-term Debt

SDG&E's commercial paper, promissory notes, and other evidences of indebtedness and credit and financing agreement and arrangements with various banks or other financial institutions or lenders will evidence SDG&E's short-term debt.

SDG&E proposes to repay such borrowings from time to time out of funds available from internal sources and the sale of additional securities and to undertake additional short-term borrowings within the limits of the authority sought pursuant to the Application.

Construction Expenditures

SDG&E's forecasted construction expenditures for the calendar years 2002, 2003, and 2004, as shown in Schedule I of the Supplemental Data to the Application are \$489 million, \$453 million, and \$508 million respectively.

We note herein that construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in general rate cases.

Cash Requirements Forecast

SDG&E's statement of cash requirements for 2002 through 2004, shown as Schedule IIIa of the Supplemental Data to the Application is summarized as follows:

	(\$ millions)		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Funds for construction	489	453	508
Maturing long-term debt	38	-	-
Long-term debt refinanced	-	-	-
Beginning of year short-term debt balance	<u>(321)</u>	<u>(197)</u>	<u>(5)</u>
Subtotal	206	256	503
Less: Estimated cash from internal sources	<u>(403)</u>	<u>(261)</u>	<u>(346)</u>
External funds required	(197)	(5)	157
External funds provided:			
Common stock	-	-	-
Preferred stock	-	-	-
Long-term debt:			
Refinancing	-	-	-
New money	<u>-</u>	<u>-</u>	<u>(138)</u>
End of year short-term debt balance	<u>(197)</u>	<u>(5)</u>	<u>19</u>

Capital Ratios

SDG&E's capital ratios as of December 31, 2001, are presented below as recorded and adjusted to give pro forma effect to the maximum amount of short-term debt that can be issued under current authorization (D.97-11-012, superceded by D.01-02-011), inclusive of amounts allowed by PU Code § 823(c):

	(\$ thousands)			
	<u>Recorded</u>		<u>Pro-Forma</u>	
	Amount	Percentage	Amount	Percentage
Long-Term Debt	899,737	42.5%	899,737	37.8%
Short-Term Debt	<u>27,647</u>	<u>1.3%</u>	<u>293,763</u>	<u>12.3%</u>
Total Debt	927,384	43.8%	1,193,500	50.1%
Preferred Stock	103,475	4.9%	103,475	4.3%
Common Equity	<u>1,086,211</u>	<u>51.3%</u>	<u>1,086,211</u>	<u>45.6%</u>
Total Capitalization	<u>2,117,070</u>	<u>100.0%</u>	<u>2,383,186</u>	<u>100.0%</u>

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.

Competitive Bidding Rule

The Competitive Bidding Rule is mandatory for all domestic debt issues of debentures or first mortgage bonds. Short-term debt and commercial paper borrowings do not fall within the classes of debt covered by the rule.

Accordingly, the authority requested in this proceeding is exempt from the Competitive Bidding Rule.

Mandated Loan Fee

SDG&E paid the mandated loan fee of \$406,000 pursuant to PU Code § 1904(b) on the \$800,000,000 authorized by D.01-02-011. However, the difference in loan fee of \$200,000 was refunded to SDG&E for the reduction of the debt authority from \$800,000,000 to \$400,000,000 pursuant to D.02-06-024.

In D.01-02-011 the Commission stated that SDG&E is currently authorized by D.97-11-012 to issue \$200,000,000 of short-term debt. SDG&E's authority to issue debt under D.97-11-012 expires on December 31, 2002. In addition, D.01-02-011 stated that the "carryover" of the 1904(b) fee that SDG&E previously paid for the \$200,000,000 of short-term debt that SDG&E was authorized to issue in D.97-11-012 expires on December 31, 2002, when SDG&E's authority to issue debt under D.97-11-012 also expires.

SDG&E states in the Application that no payment pursuant to § 1904(b) of the PU Code is required for this proceeding.

PU Code § 1904(b) states that "no fee need be paid on such portion of any such issue as may be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has theretofore been paid to the commission".

D.01-02-011 cancelled D.97-11-012 as modified and authorized SDG&E to use \$200,000,000 of short-term debt through December 31, 2002, but only to the extent that SDG&E does not need this \$200,000,000 to finance its ERSA undercollection. If SDG&E issues a total of \$200,000,000 of short-term debt by the end of 2002, then the authority is fully utilized. On the other hand, absent any modification to D.01-02-011 as amended by D.02-06-024, the authority to issue any unused portion of the short-term debt authority expires after December 31, 2002. Further, if there is no term or expiration date for the \$200,000,000 short-term debt authority, the authority automatically expires after issuance of the full amount.

SDG&E's request to utilize \$200,000,000 of short-term debt from January 1, 2003 through December 31, 2007 is a prospective debt issue. We find no merit in SDG&E's claim that it does not have to pay the § 1904(b) fee because SDG&E paid the § 1904(b) fee on this amount when it was authorized by D.01-02-011, as modified. We note herein that when a short-term debt facility is used to retire long-term debt and preferred stock whereby a fee has been previously paid, then the refunding/retiring amount may be considered as a deduction in the computation of the mandated loan fee.

Upon verification, SDG&E states that the proposed short-term debt facility may be used to retire or refund existing debt and equity securities. However because of the uncertainty of the financial market, SDG&E cannot specify or predict at this time any amount of short-term debt to be used for retirement or refunding of securities². For this reason, we conclude that the entire \$200,000,000 short-term debt authority in this proceeding is subject to § 1904(b) of the PU Code.

Therefore, pursuant to § 1904(b), SDG&E shall remit a fee of \$106,000 to the Commission's Fiscal Office within a reasonable period of time, not to exceed three months from the effective date of this decision³. If necessary, SDG&E may use the procedure in Rule 48 to request an extension of time to pay the fee. Any extension of time beyond three months will be subject to interest based on the 3-

² SDG&E's Cash Requirements Forecast does not show any amount of long-term debt to be refinanced for years 2002 to 2004. The Capital Ratios does not indicate any decrease in long-term debt and equity.

³ The fee is determined as follows: $(\$2 \times (1,000,000/1,000)) + ((\$1 \times (9,000,000/1,000)) + (\$0.50 \times (190,000,000/1,000))) = \$106,000$.

month commercial paper rate retroactive to the effective date of this decision. Failure by SDG&E to remit the fee shall render void all authority granted herein.

Use of Proceeds

Pursuant to the Application, SDG&E intends to use the \$200,000,000 short-term debt authority to maintain financial flexibility to obtain adequate temporary financing of: (i) additions and extensions of its utility plant, (ii) undercollections of SDG&E's balancing accounts (other than the ERSA undercollections), (iii) retirements, tenders, calls or other refundings of SDG&E's long-term debt or preferred stock, (iv) financing of SDG&E's fuel inventories, and (v) to satisfy such other short-term cash needs that may arise from time to time.

Having explicitly determined the \$200,000,000 amount and the purpose of use of proceeds as reasonable previously, we see no reason to object to it at this time and will authorize SDG&E to use this short-term debt authority from January 1, 2003 until December 31, 2007.

In D.96-07-054 pertaining to Southern California Edison Company and D.97-11-012 pertaining to SDG&E, we noted our concern about the possibility of utilities' maintaining excessive levels of short-term debt for extended periods, and placed on them a restriction that it maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other securities⁴ then outstanding at least once every twelve months. Our concerns apply equally in this proceeding, and we will apply the same restriction.

⁴ Long-term debt, preferred stock and common stock.

In Resolution (Res.) ALJ 176-3090 dated June 27, 2002, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3090.

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.

Findings of Fact

1. SDG&E, a California corporation, is a public utility under the jurisdiction of this Commission.
2. SDG&E needs external funds for the purposes set forth in the Application.
3. SDG&E is currently authorized by D.97-11-012 to issue \$200,000,000 of short-term debt. SDG&E authority to issue debt under D.97-11-025 expires on December 31, 2002. The \$800 million of debt authorized in D.01-02-011 as modified by D.02-06-024 is meant to supercede SDG&E's authority to issue debt under D.97-11-012. This authority also expires on December 31, 2002.
4. 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.
5. SDG&E's proposed issue of commercial paper and short-term promissory notes is exempt from the requirements of the Competitive Bidding Rule.
6. In D.94-09-074, SDG&E was authorized to report on a quarterly basis the information required by G.O. 24-B with respect to debt and/or equity that

SDG&E was authorized to issue in D.93-09-069, D.93-07-043, D.93-04-024, and D.92-11-059.

7. There were no protests to A.02-06-021.

8. The Commission does not by this decision determine that the proposed use of the loan proceeds, including the construction budget, the cash requirements forecasts, and the capital structure presented herein are necessary or reasonable for ratemaking purposes.

9. Notice of the filing of the Application appeared on the Commission's Daily Calendar of June 20, 2002, and no protests have been received. There is no known opposition to the Application and no reason to delay granting the authority requested.

10. This authority shall not be used to provide and fund inter-corporate borrowings either between SDG&E and Sempra Energy (Sempra) and SDG&E and Southern California Gas Company (SoCalGas) or between SDG&E and any other affiliate of the parent corporation.

Conclusions of Law

1. A public hearing is not necessary.

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

3. The proposed short-term borrowings are for lawful purposes.

4. SDG&E should report on a quarterly basis, all the information required by G.O. 24-B pursuant to this decision.

5. The "carryover" of the 1904(b) fee that SDG&E previously paid for the \$200,000,000 of short term debt that SDG&E was authorized to issue in D.01-020-011 as modified by D.02-06-024 expires on December 31,2002.

6. The entire \$200,000,000 of short-term debt facility authorized by this decision is subject to § 1904(b) less any amount to be used for retirement or refunding of debt or equity whereby a fee has been previously paid.

7. The money, property, or labor to be procured or paid for by the debt issue is to be used solely for the purposes specified herein. The proceeds may not be charged to operating expenses or income.

8. SDG&E should pay the fee determined in accordance with § 1904(b) of the PU Code.

9. This decision will take effect January 1, 2003.

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

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E), on or after January 1, 2003 and up to and including December 31, 2007, may issue short-term obligations in the aggregate principal amount up to \$200,000,000, upon terms and conditions substantially consistent with those set forth or contemplated in Application 02-06-021 (Application). This authorization is in addition to the aggregate principal amount of notes payable at periods of not more than 12 months otherwise authorized without Commission approval by Public Utilities (PU) Code § 823(c).

2. SDG&E shall apply the proceeds from the sale of its short-term obligations for the purposes described herein.

3. SDG&E's short-term debt facility is exempt from the Competitive Bidding Rule.

4. SDG&E shall maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other capital (long-term debt, preferred stock and common stock) then outstanding at least once every twelve months.

5. On or before the 25th day of the month following each quarter, SDG&E shall file a report for the preceding quarter showing all receipts and disbursements required by General Order Series 24.

6. The authority granted by this order shall become effective when SDG&E pays \$106,000 as required by § 1904(b) of the Public Utilities Code.

7. Application 02-06-021 is granted as set forth above.

8. Application 02-06-021 is closed.

This order is effective today.

Dated December 19, 2002, at San Francisco, California.

HENRY M. DUQUE
CARL W. WOOD
GEOFFREY F. BROWN
MICHAEL R. PEEVEY
Commissioners

I dissented.

/s/ LORETTA M. LYNCH
President