Decision ______________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902M) for authorization to: (1) issue Debt Securities (First Mortgage Bonds, debentures, overseas indebtedness, foreign securities, medium-term notes, accounts receivable financing), and to enter into long-term loans, in an aggregate principal amount up to $800 million of debt capital, in addition to previously-authorized amounts; (2) issue certain tax-exempt Debt Securities in order to guarantee the obligations of others; (3) include certain features in the Debt Securities or to enter into certain derivative transactions related to underlying debt in order to improve the terms and conditions of the debt portfolio and with the goal of lowering the cost of money for the benefit of ratepayers; (4) issue and sell up to $150 million of par or stated-value Preferred or Preference Stock, in addition to previously authorized amounts; (5) hedge planned issuances of Debt Securities, Preferred or Preference Stock; (6) obtain certain exemptions from the Commission's Competitive Bidding Rule; and (7) take all other necessary, related actions.	Application 10-05-016 (Filed May 17, 2010)

DECISION AUTHORIZING SAN DIEGO GAS & ELECTRIC COMPANY TO ISSUE UP TO $800 MILLION OF NEW DEBT SECURITIES AND $150 MILLION OF PREFERRED OR PREFERENCE STOCK

TABLE OF CONTENTS

Title **Page**

DECISION AUTHORIZING SAN DIEGO GAS & ELECTRIC COMPANY TO ISSUE UP TO $800 MILLION OF NEW DEBT SECURITIES AND $150 MILLION OF PREFERRED OR PREFERENCE STOCK

1. Summary

This decision grants San Diego Gas and Electric Company (SDG&E) the authority to issue up to $800 million of new Debt Securities and $150 million of new Preferred or Preference Stock. This decision also authorizes SDG&E to: 1) encumber utility property; 2) guarantee the securities or other obligations of SDG&E's regulated affiliates and regulated subsidiaries, and political subdivisions that issue securities on behalf of SDG&E; 3) enter into Debt Securities and Preferred or Preference Stock enhancement features; 4) receive certain exemptions from the Commission's Competitive Bidding Rule; and 5) report all Debt Securities information required by General Order 24-B on a quarterly basis.

2. Background

On May 17, 2010, San Diego Gas and Electric Company (SDG&E) filed Application (A.) 10-05-016 requesting authorization to: issue up to $800 million of new Debt Securities; issue up to $150 million of new Preferred or Preference Stock; fund capital expenditures; reimburse its treasury for monies expended or to be expended for the expansion and betterment of utility plant; enter into one or more interest rate risk management contracts; encumber utility property; guarantee obligations of regulated affiliates or regulated subsidiaries, and political subdivisions; and be exempted from selected portions of the Competitive Bidding Rule (CBR).

Notice of the application appeared in the Commission's Daily Calendar of May 19, 2010 and no protests were filed. On May 20, 2010, Resolution

ALJ 176-3254 was issued, preliminarily categorizing this application as ratesetting, and that no hearings were needed.

3. Request

In its application, SDG&E sought authorization to issue up to $800 million of Debt Securities and up to $150 million of Preferred or Preference Stock, in addition to previously-authorized amounts, until the aggregate principal amount authorized has been fully utilized to meet its future financing needs based on a long-term forecast covering the three-year period 2010 through 2012. The principal amount, form, terms, and conditions of each series of Debt Securities will be determined by SDG&E's management or Board of Directors according to market conditions at the time of sale or issuance. In general, each series of medium-term notes are expected to have a maturity of between nine months and 40 years, while each series of long-term Debt Securities are expected to have a maturity of between one and 100 years. SDG&E states that, as a rule, it would not issue medium-term notes with a maturity of less than 12 months, and that it plans to issue its requested debt in the current application in conformance with Public Utilities (Pub. Util.) Code §§ 817 and 818.

SDG&E indicated that it intends to issue Debt Securities as: First Mortgage Bonds; medium-term notes; direct long-term notes pursuant to a line of credit with banks, insurance companies or other financial institutes; accounts receivable financing; tax-exempt debt issued through one or more political subdivisions; variable rate debt; subordinated debt; "Fall-Away" mortgage bond; overseas indebtedness; hybrid capital; and foreign securities; and issuing such indebtedness as secured or unsecured in both domestic or foreign markets. SDG&E also proposes to issue Debt Securities through SDG&E regulated affiliates or regulated subsidiaries, and political subdivisions, and guarantee the securities or other obligations of SDG&E's regulated affiliates or regulated subsidiaries, and political subdivisions that issue securities on behalf of SDG&E.

SDG&E proposes to issue new par or stated-value Preferred or Preference Stock through an offering and sale to the public either with negotiated underwritings or by private placements with institutional or other investors. SDG&E has not yet determined the precise amount and timing of each placement, and the securities' features have not been finally determined. They will be established by SDG&E prior to the offering with due regards for its funding requirements and the prevailing and anticipated market conditions. SDG&E anticipates that the terms and conditions of such securities may include, but not be limited to, preference, dividends, redemption provisions, capital replacement, and trust structures.

SDG&E proposed to use it new financing authority to fund capital expenditures and reimburse its treasury for monies actually expended from income or from any other money in its treasury not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes, or other evidence of indebtedness for expansion and betterment of its facilities, with the amounts so reimbursed becoming part of its general treasury funds. In particular, SDG&E plans to make a substantial investment in infrastructure in order to, among other things: serve an increasing load; improve reliability; meet its renewable portfolio standard goals; reduce congestion costs; connect new generation; and upgrade and modernize aging infrastructure.

SDG&E also sought authorization to encumber utility property, including but not limited to accounts receivables and utility property to secure Debt Securities authorized herein. In order to manage interest rate risk, SDG&E proposes to utilize Debt Securities enhancement features including put options, call options, sinking funds, swaptions,[1] caps, collars, currency swaps, credit enhancements, capital replacement, interest deferral, special-purpose entity transactions,[2] delayed drawdown, hedging strategies, treasury lock, various types of treasury options, various types of interest rate swaps, and long hedges. SDG&E also proposes to utilize Preferred or Preference Stock enhancement features, including preference and redemption provisions, capital replacement, and special purpose transactions. Additionally, SDG&E seeks a partial exemption from the Commission's CBR.

4. Discussion

4.1. Public Utilities Code Requirements for Issuance of Securities

SDG&E's request is subject to Pub. Util. Code §§ 816, 817, and 818. The Commission has broad discretion under § 816 et seq. to determine if a utility should be authorized to issue debt. Where necessary and appropriate, the Commission may attach conditions to the issuance of debt and stock to protect and promote the public interest.

---

[1] The option to enter into a swap.

[2] A special-purpose entity would be a regulated affiliate or subsidiary of SDG&E that would issue securities and commit the proceeds from the issuance of such to SDG&E. These securities may be guaranteed by SDG&E.

Pursuant to Pub. Util. Code § 817, a public utility may only issue and use financing for selected purposes.[3] Those purposes not listed in Pub. Util. Code § 817 may only be paid with funds from normal utility operations. SDG&E stated that even though the term of its medium-term notes has a floor nine months, it does not plan to issue any debt with a term of less than 12 months based on the authority granted in the current application. We reiterate that Debt Securities issued pursuant to Pub. Util. Code §§ 817 and 818 must have a term of greater than 12 months.

---

[3] 817. A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for any one or more of the following purposes and no others:

(a) For the acquisition of property.

(b) For the construction, completion, extension, or improvement of its facilities.

(c) For the improvement or maintenance of its service.

(d) For the discharge or lawful refunding of its obligations.

(e) For the financing of the acquisition and installation of electrical and plumbing appliances and agricultural equipment which are sold by other than a public utility, for use within the service area of the public utility.

(f) For the reorganization or readjustment of its indebtedness or capitalization upon a merger, consolidation, or other reorganization.

(g) For the retirement of or in exchange for one or more outstanding stocks or stock certificates or other evidence of interest or ownership of such public utility, or bonds, notes, or other evidence of indebtedness of such public utility, with or without the payment of cash.

(h) For the reimbursement of moneys actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness of the public utility, for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant has kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purposes for which such expenditure was made.

Pub. Util. Code § 818 states that no public utility may issue notes or other evidences of indebtedness payable at periods of more than 12 months unless, in addition to the other requirements of law, it shall first have secured from the Commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied. Pub. Util. Code § 818 also requires the Commission, in issuing such an order, to find that the money, property, or labor to be procured or paid for with the proceeds of the debt authorized is reasonably required for the purposes specified in the order and, unless expressly permitted in an order authorizing debt, that those purposes are not, in whole or in part, reasonably chargeable to expenses or to income. These purposes are authorized by § 817 and, as required by § 818, are not reasonably chargeable to operating expenses or income. SDG&E has substantiated that its need for issuance of new Debt Securities and Preferred or Preference Stock are necessary and are for proper purposes, as discussed in Section 4.2 below.

Since SDG&E's request is in compliance with Pub. Util. Code § 816 et seq., we will grant it authority to issue new Debt Securities and Preferred or Preference Stock for the aforementioned purposes and terms, and for the amounts determined in the order of this decision.

4.2. Forecast of Sources and Uses

Utility applications seeking authority to issue debt or other securities are based, in part, on forecasted sources and uses of funds that illustrate the requested need for funding. SDG&E used a long-term forecast covering the three-year period of 2010-2012 to determine its future financings needs. SDG&E's forecast includes uses of funds such as capital expenditures, and sources of funds, such as cash from internal sources and issuance of short-term debt. We rely on SDG&E's forecast to determine the forecast of Sources and Uses set forth below in Table 1.

Table 1

Sources and Uses Statement for 2010-2012

USES OF FUNDS	**(Millions of Dollars)**			
	2010	2011	2012	Total
Capital Expenditures	$1,600	$2,100	$1,200	$4,900
SOURCES OF FUNDS				
Cash from Internal Sources	$667	$680	$1,040	$2,387
Issuance of Short-Term Debt	$13	$80	$10	$103
Total Source of Funds	$680	$760	$1,050	$2,490
Surplus (Deficient) Financial Sources[4]	($920)	($1,340)	($150)	($2,410)

SDG&E has total estimated existing financing authority of $1,310.61 million consisting of $569.25 million of Debt Securities, $413 million of Rollover Debt Securities, $252.36 million of Preferred Equity, and $76 million of Rollover Preferred Equity.[5] After deduction of SDG&E's existing financing authority from the need of $2,410 million shown in Table 1, a need for funds of $1,099.39 remains. SDG&E proposes to use $800 million of Debt Securities and $150 million of Preferred or Preference Stock to offset this net need, resulting in a remaining need for funds of $149.39 million over the 2010-2012 period.

[4] Surplus (deficit) equals total financial requirements less total source of funds.

[5] See A.10-05-016, Table 1.

Given that the net need for funds is greater than the request, it is reasonable to authorize SDG&E to issue $800 million of new Debt Securities and $150 million of new Preferred or Preference Stock. This new financing will allow SDG&E to fund its capital expenditure plans for the period 2010 through 2012, and to reimburse SDG&E for money expended from income or treasury funds, to the extent authorized by Pub. Util. Code § 817(h). We find SDG&E's request to be reasonable and supported by the record.

Granting of financing authority to a utility does not obligate the Commission to approve any capital projects. This financing authority provides SDG&E with sufficient liquid resources to timely finance its upcoming public utility projects and to reimburse its treasury. Review of the reasonableness of capital projects occurs as needed through the regulatory process applicable to each capital project. Therefore, any approval of this financing request would not prejudge any of SDG&E's forecasted projects for the period 2010 through 2012.

4.3. Types of Securities to be Issued

SDG&E requested authority to issue new Debt Securities, described in Section 3 of this decision, that are similar to those types of Debt Securities authorized in Decision (D.) 08-07-029. Therefore, we will authorize SDG&E to issue the types of Debt Securities detailed in Section 3 of this decision and enumerated in the order herein.

SDG&E also requested authority to issue new par or stated-value Preferred or Preference Stock, described in Section 3 of this decision, that are similar to those types of Preferred or Preference Stock authorized in D.06-05-015. Therefore, we will authorize SDG&E to issue the Preferred or Preference Stock detailed in Section 3 of this decision and enumerated in the order herein.

Also consistent with § 824, SDG&E must maintain records to identify the specific securities issued pursuant to this decision, and demonstrate that proceeds from such securities have been used only for public utility purposes.

4.4. Encumbrance of Utility Property

SDG&E also sought authority to encumber its utility property, including but not limited to its accounts receivables and utility plant, as part of issuing secured Debt Securities. This request to encumber utility property is subject to § 851 which states, in relevant part, that no utility shall encumber any part of its plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit or right there under without first having secured from the Commission an order authorizing it to do so. Consistent with D.08-07-029,[6] we will authorize SDG&E to encumber its utility property, including but not limited to its accounts receivables and utility plant.

Also consistent with D.08-07-029,[7] we will grant SDG&E authority to guarantee or to pledge its assets on behalf of regulated affiliates or regulated subsidiaries of SDG&E who qualifies to transact financing arrangements pursuant to Pub. Util. Code § 701.5, as part of a special-purpose entity transaction.

---

[6] See D.08-07-029 at Ordering Paragraph (OP) 2.

[7] See D. 08-07-029 at OP's 2 and 3.

Consistent with D.08-07-029,[8] we will grant SDG&E authority to issue Debt Securities through one or more political subdivision to obtain tax-exempt status for the securities, whenever SDG&E's facilities qualify for tax-exempt financing under federal or state law. In this structured financing, SDG&E is authorized to unconditionally guarantee or otherwise secure the issuer's obligations to its debt holders. As a means of securing the issuers obligations, SDG&E may issue and pledge or deliver bonds in an equal principal amount to the issuer or a trustee.

4.5. Securities Enhancements

SDG&E sought authority to include certain securities enhancements, described in Section 3 of this decision, to improve the terms and conditions of SDG&E's new issuances of Debt Securities and Preferred and Preference Stock, and to lower the overall cost of money for the benefit of the ratepayers. The Commission has previously allowed SDG&E authority to use these securities enhancements, most recently in D.08-07-029[9] and D.06-05-015.[10] We again authorize SDG&E to use these previously approved forms of securities enhancements to lower the overall cost of money for the benefit of the ratepayers.

4.6. Competitive Bidding Rule

Resolution No. F-616, issued on October 1, 1986, requires utilities to issue debt using competitive bids. SDG&E intends to competitively bid all

---

8 See D.08-07-029 at OP 1.

9 See D.08-07-029 at OP 3.

10 See D.06-05-015 at 14-15 and OP 1.

underwritten public offerings of fixed –rate debentures and First Mortgage Bonds of $200 million or less.

4.6.1. Telephonic Bidding

Consistent with the available use of telephonic bidding, SDG&E requests that the Commission authorize SDG&E to utilize electronic means other than telephone, such as e-mail: 1) for the invitation of bids; 2) for the receipt of bids from two or more underwriters or underwriting syndicates; 3) to accelerate, postpone or cancel the scheduled date and time for the receipt of bids and/or vary the terms and provisions of the Debt Securities submitted for bid; and 4) to reject all bids and request resubmission of bids. Other electronic means such as e-mail, are consistent with the Resolution F-616 authorization of telephonic bidding. We have authorized the use of other electronic means such as e-mail in D.08-07-029,[11] and do so again here.

4.6.2. Debt Securities in Excess of $200 Million

SDG&E intends to competitively bid all underwritten public offerings of fixed- rate debentures and First Mortgage Bonds of $200 million or less. However, it seeks an exemption, similar to that authorized in D.08-07-029,[12] from the CBR on issues in excess of $200 million to meet its financing requirements on more favorable terms. Among the relevant factors here are:

1. Competitive bidding of larger issues may result in higher costs due to the fragmenting of the investment banking community into competitive bidding syndicates and the increased risk thereby assumed by each of them.

---

[11] See D.08-07-029 at OP 4.

[12] See D.08-07-029 at OP 6.

2. There has been considerable consolidation in the financial services sector resulting in the existence of fewer and larger investment and commercial banks and bidding syndicates, both domestically and globally.
3. A negotiated transaction involves a single underwriting syndicate with typically more participants than a bidding syndicate, which disperses underwriting risk, provides a superior assessment of market demand, and results in a reduction in the number of bonds each syndicate member must resell under a competitive bid process.

We have authorized similar exemptions in the past, and do so again here.

4.6.3. Securities Not Applicable to Competitive Bidding

SDG&E explains that certain of the Debt Securities requested in A.10-05-016 do not lend themselves to competitive bidding, regardless of the size of the issue. For example, competitive bidding is not presently available in European or Japanese markets. Also, tax exempt pollution control bonds are not conducive to competitive bidding because they require considerable work in advance of the actual financing to determine the financing structure and terms and to identify what facilities qualify under the tax laws for tax-exempt financing. Similarly, variable interest rate debt is normally completed on a negotiated basis.

It is because those Debt Securities that do not lend themselves to competitive bidding that SDG&E seeks an exemption from the CBR to provide it with added flexibility to take advantage of market opportunities. Specifically, SDG&E seeks authority to enter into negotiated transactions with respect to Debt Securities other than domestic fixed-rate debentures and First Mortgage

Bonds, including without limitation: medium-term notes, foreign debt, long-term loans, Debt Securities issued in conjunction with tax-exempt financings, subordinated debt, and special-purpose entity transactions. Similar authority was provided to SDG&E in D.08-07-029.[13] We will not authorize a request "without limitation"[14], though, because this would mean authorizing something that has not been identified. Therefore, we will only authorize SDG&E exemptions for the specific types of debt referred to above and enumerated in the order herein.

SDG&E also requests that the Commission re-confirm that the authority to effect financings involving preferred or preference stock and hybrid capital without competitive bids, granted in D.08-07-029,[15] remain in force as long as any unused portion of such authority exists. Since this exemption has been previously authorized, we re-confirm such authorization here.

4.6.4. One-Day Notice Period

SDG&E seeks authority to eliminate the one-day notice requirement referred to in Resolution F-616. SDG&E seeks this exemption on the basis that the Securities and Exchange Commission's self registration procedure enables it to price an offering when market conditions appear most favorable. It is advantageous, therefore, to be able to minimize the period of time between the issuance of an invitation for bids and the scheduled receipt of bids, and to have the ability to make adjustments in the size or terms of an offering up to the last moment in response to current market conditions. SDG&E goes on to state that

---

[13] See D.08-07-029 at OP 7.

[14] A.10-05-016 at 27.

[15] See D.08-07-029 at OP 7.

given the near instantaneous communication and real-time transacting that today's technology provides, prospective bidders no longer require 24 hours notification in order to respond to invitations for bids or adjustments to available terms. We have previously authorized a similar exemption in D.08-07-029,[16] and do so again here.

4.6.5. Diverse Business Enterprises

SDG&E represents that Diverse Business Enterprises (DBE), consisting of small underwriting firms, do not have the capital to participate with large investment banks in competitively bid financing offerings of more than $200 million. Since 2004, SDG&E and its utility affiliate Southern California Gas Company have actively sought to include DBE underwriting firms in their First Mortgage Bond offering, employing ten DBE's as underwriters, in 12 offerings totaling $3 billion in aggregate. In its May 10, 2010 bond offering, SDG&E employed a DBE firm as lead underwriter and assigned two other DBE firms as co-managers.

The DBE's participation in SDG&E's offerings broadens its investor pool, reaching out to firms that are less capitalized and have more limited distribution capabilities than larger firms. The Commission has authorized this same exemption from the Competitive Bidding Rule in other recent energy utility financing decisions.[17] SDG&E's request for an exemption from the Competitive Bidding Rule for debt issuances in excess of $200 million would enable SDG&E to continue its efforts to add DBE underwriters to its syndicates.

---

[16] See D.08-07-029 at OP 8.

[17] See, for example, D.09-09-046 at 10.

4.6.6. Conclusion

SDG&E's request for the previously described exemptions from, and modifications to, the Competitive Bidding Rule, as detailed in the order of this decision, is granted on the basis that the Commission has routinely granted SDG&E and other utilities similar exemptions and modifications[18] with no discernable adverse impacts on the utilities, their customers, or the public at large; and on SDG&E's representation that granting the exemptions and modifications will enable it to obtain debt in a manner advantageous to SDG&E and its ratepayers. We make no finding regarding the reasonableness of the rates, terms, and conditions of debt issued by SDG&E pursuant to the exemptions and modifications granted herein.

5. Reporting Requirement

General Order (GO) 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (a) the amount of debt issued by the utility during the previous month; (b) the total amount of debt outstanding at the end of the prior month; (c) the purposes for which the utility expended the proceeds realized from the issuance of debt during the prior month; and (d) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt.

The Commission has granted many utilities authority to report quarterly the information required by GO 24-B in order to reduce their administrative cost

---

[18] See, for example, D.08-07-029 at OP 4 through 8; D.04-10-037 at 50-51; and D.03-12-004 at 32-33.

of complying with the GO and to conform to past practice.[19] SDG&E should be treated no differently. SDG&E may report quarterly to the Commission the information required by GO 24-B. However, SDG&E shall report this information on a monthly basis if directed to do so by the Commission staff.

6. Fee

Whenever the Commission authorizes a utility to issue debt and preferred stock, the Commission is required to charge and collect a fee pursuant to Pub. Util. Code §§1904(b) and 1904.1. The fee is calculated as follows:

Table 2
Calculation of Fee

Securities	Amount of Securities	Rate per $1,000 of Proposed Securities	Total Fee
$800 Million of Debt Securities	$1,000,000	$2	$2,000
	$9,000,000	$1	$9,000
	$790,000,000	$0.50	$395,000
		Subtotal	**$406,000**
$150 Million of Preferred/Preference Stock	$1,000,000	$2	$2,000
	$9,000,000	$1	$9,000
	$140,000,000	$0.50	$70,000
		Subtotal	**$81,000**
		Total Fee	**$487,000**

7. Financial Information

We place SDG&E on notice that the reasonableness of any resulting interest rate and cost of money arising from the issuance of Debt Securities and Preferred Equity as well as capital structures, are normally subject to review in the appropriate cost of capital or general rate case proceeding. Therefore, we

[19] See, for example, D.05-08-008 at 36; D.04-10-037 at 51; and D.03-12-052 at 11-12.

will not make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes or the appropriate cost of money. We do not make a finding in this decision on the reasonableness of SDG&E' proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in a general rate case or specific application. The authority to issue securities is distinct from the authority to undertake construction or the right to recover the cost of capital in rates.

8. California Environmental Quality Act

The California Environmental Quality Act (CEQA) applies to projects that require discretionary approval from a governmental agency, unless exempted by statute or regulation. It is long established that the act of ratemaking by the Commission is exempt from CEQA review. As stated in the California Public Resources Code, the "establishment, modification, structuring, restructuring or approval of rates, tolls, fares, or other charges by public agencies" is exempt from CEQA.[20] Likewise, the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant impact on the environment are not "projects" subject to CEQA.[21]

This decision does not authorize any capital expenditures or construction projects. New construction projects which [utility] intends to finance via this application should undergo CEQA review as early as feasible in the planning process, as required by CEQA Guidelines Section 15004(b). To the extent capital

---

[20] Public Resource Code Section 21080(b)(8).

[21] CEQA Guidelines Section 15378(b)(4).

expenditures are financed with the proceeds of the long-term debt issued pursuant to this decision, ongoing projects have already been subject to any necessary CEQA review undertaken prior to SDG&E receiving a certificate of public convenience and necessity or permit to construct. CEQA review for future projects will occur through the regulatory processes applicable to each capital project when meaningful information necessary for conducting an environmental assessment is available.

9. Category and Need for Hearings

By Resolution ALJ 176-3254, dated May 20, 2010, the Commission preliminarily determined that this was a ratesetting proceeding and that a hearing would not be necessary. Based on the record, we affirm that this is a ratesetting proceeding, and that a hearing is not necessary.

10. Comments on Proposed Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Pub. Util. Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

11. Assignment of Proceeding

Timothy Alan Simon is the assigned Commissioner and Seaneen M. Wilson is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Based on SDG&E's forecast of uses, the forecast of funds needed by SDG&E over the period 2010-2012 is $4.9 billion. Of this need:
    a. $1,310.61 million will be provided from current financing authority;
    b. $2,387 million will be provided from cash from internal sources;

c. $103 million will be provided from short-term debt;

d. $800 million will be provided from new Debt Securities; and

e. $150 million will be provided from new Preferred or Preference Stock.

2. The proper term for securities issued pursuant to Pub. Util. Code §817 is greater than 12 months.

3. The requested financing authority of $800 million of new Debt Securities and $150 million of new Preferred or Preference Stock appears necessary to provide the external funding required to meet SDG&E's projected cash requirements through 2012.

4. The proposed new financing requested by SDG&E and the associated money, property, or labor to be procured or paid for with the proceeds of this proposed new financing, are, pursuant to Pub. Util. Code §§ 817 and 818, reasonably required for proper purposes, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

5. Resolution F-616 requires utilities to issue debt using competitive bids.

6. Resolution F-616 also provides for exemptions from the CBR for debt issues in excess of $200 million and debt that must be obtained on a negotiated basis.

7. SDG&E and its affiliate Southern California Gas Company have employed ten DBE firms in their First Mortgage Bond offerings since 2004, whose offerings totaled $3 billion.

8. The necessity or reasonableness for ratemaking purposes of SDG&E's construction budget, cash requirements forecast, and capital structure, are normally reviewed and authorized in general rate cases or cost of capital proceedings.

9. GO 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (a) the amount of debt issued by the utility during the previous month; (b) the total amount of debt outstanding at the end of the prior month; (c) the purposes for which the utility expended the proceeds realized from the issuance of debt during the prior month; and (d) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt.

10. The Commission has frequently authorized utilities to report on a quarterly basis the information required by GO 24-B in order to reduce the utilities' administrative and compliance costs.

11. Notice of A.10-05-016 appeared in the Commission's Daily Calendar on May 19, 2010 and no protests were filed.

12. Resolution ALJ 176-3254 preliminarily categorized A.10-05-016 as ratesetting and determined that a hearing would not be necessary.

Conclusions of Law

1. SDG&E should be authorized to issue new Debt Securities of up to $800 million and new par or stated-value Preferred or Preference Stock of up to $150 million, all of which are for proper purposes and consistent with the requirement of Pub. Util. Code §§ 817 and 818.

2. SDG&E should be authorized to issue new Debt Securities including: First Mortgage Bonds; medium-term notes, direct long-term notes pursuant to a line of credit with banks, insurance companies or other financial institutes; accounts receivable financing; tax-exempt debt issued through one or more political subdivisions; variable rate debt; subordinated debt; "Fall-Away" mortgage bond; overseas indebtedness; hybrid capital; and foreign securities;

issuing such indebtedness as secured or unsecured; in domestic or foreign markets.

3. Pursuant to Pub. Util. Code §851, SDG&E should be authorized to encumber its utility property, including but not limited to accounts receivable and utility property, to secure Debt Securities, authorized herein.

4. SDG&E should be authorized to guarantee, or to pledge its assets on behalf of a regulated affiliates or regulated subsidiaries of SDG&E, pursuant to § 701.5. A regulated subsidiary may be created solely for the purpose of issuing securities to the public or privately to support SDG&E's operations or service in which case, SDG&E should have 100% ownership and control of the subsidiary.

5. SDG&E should be authorized to issue Debt Securities through one or more political subdivisions to obtain tax-exempt status for the securities, authorized herein, whenever SDG&E's facilities qualify for tax-exempt financing under federal or state law. In this structured financing, SDG&E may be authorized to unconditionally guarantee or otherwise secure the issuer's obligations to its debt holders. As a means of securing the issuer's obligations, SDG&E should be authorized to issue and pledge or deliver bonds in an equal principal amount to the issuer or a trustee.

6. SDG&E should be authorized to use the following kinds of debt enhancements to manage interest rate risks of its Debt Securities authorized herein: put options; call options; sinking funds; swaptions; caps, collars currency swaps; credit enhancements; capital replacements; interest deferral; special-purpose entity transactions; delayed drawdown; hedging strategies; treasury lock; various types of treasury options; various types of interest rate swaps; and long hedges.

7. SDG&E should be authorized to include preference, dividends, redemption provisions, capital replacement, and special-purpose entity transactions in issuances of Preferred or Preference Stock authorized herein.

8. SDG&E should be authorized to utilize electronic means other than telephone, such as e-mail: 1) for the invitation of bids; 2) for the receipt of bids from two or more underwriters or underwriting syndicates; 3) to accelerate, postpone or cancel the scheduled date and time for the receipt of bids and/or vary the terms and provisions of the Debt Securities submitted for bid; and 4) to reject all bids and request resubmission of bids.

9. Consistent with the CBR, SDG&E must use the CBR for all issuances of fixed rate Debt Securities in the form of public offerings of fixed–rate debenture and First Mortgage Bonds of $200 million or less in principal amount (other than tax-exempt securities) that are sold publicly in the domestic market, through competitive bidding.

10. SDG&E should be granted an exemption from the CBR for all issuances of medium-term notes, foreign debt, long-term loans, Debt Securities issued in conjunction with tax-exempt financings, subordinated debt, special-purpose entity transactions, and for all issuances in excess of $200 million.

11. SDG&E should continue to be exempt from the CBR for financings involving Preferred Stock, Preference Stock, and hybrid capital. SDG&E should be exempted from the CBR's one-day notice requirement.

12. SDG&E should file with the Commission, on or before the 25th day of the month following each quarter, a report under GO Series 24-B.

13. The order herein is not a finding of the reasonableness of SDG&E's proposed construction plan or expenditures, the resulting plant balances in rate

base, the capital structure, or the cost of money, nor does it indicate approval of matters subject to review in a general rate case or other proceedings.

14. SDG&E should remit a check for $487,000, as required by §§ 1904(b) and 1904.1 of the Pub. Util. Code.

15. The authority granted by this Decision should not become effective until SDG&E has paid the fees prescribed by §§ 1904(b) and 1904.1.

16. SDG&E should not use the proceeds from the debt authorized by this decision to fund its capital projects until SDG&E has obtained all required Commission approvals for the projects, including any required environmental review under CEQA.

17. The order herein does not involve any commitment to any specific project which may result in a potentially significant impact on the environment; thus it is not a project subject to CEQA.

18. The authority granted SDG&E herein is in compliance with Pub. Util. Code §§ 701.5, 816, 817, 818, 824, and 851.

O R D E R

IT IS ORDERED that:

1. San Diego Gas and Electric Company is authorized to issue new Debt Securities up to $800 million for terms of greater than 12 months.

2. San Diego Gas and Electric Company is authorized to issue new par or stated-value Preferred or Preference Stock up to $150 million.

3. San Diego Gas and Electric Company is authorized to issue new Debt Securities and par or stated-value Preferred or Preference Stock in compliance with Public Utilities Code §§ 701.5, 816, 817, 818, 824, and 851.

4. San Diego Gas and Electric Company is authorized to issue new Debt Securities in the form of: First Mortgage Bonds; medium-term notes; direct long-term notes pursuant to a line of credit with banks, insurance companies or other financial institutes; accounts receivable financing; tax-exempt debt issued through one or more political subdivisions; variable rate debt; subordinated debt; "Fall-Away" mortgage bond; overseas indebtedness; hybrid capital; and foreign securities; and issuing such indebtedness as secured or unsecured, in domestic or foreign markets.

5. Pursuant to Public Utilities Code §851, San Diego Gas and Electric Company is authorized to encumber its utility property including but not limited to accounts receivable and utility property to secure the Debt Securities authorized herein.

6. San Diego Gas and Electric Company is authorized to issue Debt Securities through and guarantee or pledge its assets on behalf of regulated affiliates or regulated subsidiaries of San Diego Gas and Electric Company, pursuant to Public Utilities Code §701.5. A regulated subsidiary may be created solely for the purpose of issuing securities to the public or privately to support San Diego Gas and Electric Company's operations or service in which case, San Diego Gas and Electric Company should have 100% ownership and control of the subsidiary.

7. San Diego Gas and Electric Company is authorized to issue Debt Securities through one or more political subdivisions to obtain tax-exempt status for the securities authorized herein, Whenever San Diego Gas and Electric Company's facilities qualify for tax-exempt financing under federal or state law. In this structured financing, San Diego Gas and Electric Company may unconditionally guarantee or otherwise secure the issuer's obligations to its debt holders. As a means of securing the issuer's obligations, San Diego Gas and Electric Company

may issue and pledge or deliver bonds in an equal principal amount to the issuer or a trustee.

8. San Diego Gas and Electric Company is authorized to utilize the following kinds of debt enhancements to manage interest rate risks of its Debt Securities authorized herein: put options; call options; sinking funds; interest rate swaps; swaptions; caps; collars; currency swaps; credit enhancements; capital replacements; interest deferral; special-purpose entity transactions; delayed drawdown; hedging strategies; treasury lock; various types of treasury options; various types of interest rate swaps; and long hedges.

9. San Diego Gas and Electric Company is authorized to include preference, dividends, redemption provisions, capital replacement, and special-purpose entity transactions in issuances of Preferred or Preference Stock authorized herein.

10. San Diego Gas and Electric Company is authorized to utilize electronic means other than telephone, such as e-mail: 1) for the invitation of bids; 2) for the receipt of bids from two or more underwriters or underwriting syndicates; 3) to accelerate, postpone or cancel the scheduled date and time for the receipt of bids and/or vary the terms and provisions of the Debt Securities submitted for bid; and 4) to reject all bids and request resubmission of bids.

11. Consistent with the Competitive Bidding Rule, San Diego Gas and Electric Company must use the Competitive Bidding Rule for al issuances of: fixed rate Debt Securities in the form of public offerings of fixed–rate debenture; and First Mortgage Bonds of $200 million or less in principal amount (other than tax-exempt securities) that are sold publicly in the domestic market through competitive bidding.

12. San Diego Gas and Electric Company is granted an exemption from the Competitive Bidding Rule for all issuances of medium-term notes, foreign debt, long-term loans, Debt Securities issued in conjunction with tax-exempt financings, subordinated debt, and special-purpose entity transactions; financings involving Preferred Stock, Preference Stock, and hybrid capital; and for all issuances in excess of $200 million.

13. San Diego Gas and Electric Company is not required to comply with the Competitive Bidding Rule's one-day notice requirement.

14. San Diego Gas and Electric Company must report on a quarterly basis all the information required by General Order 24-B with respect to securities issued pursuant to this Order. However, San Diego Gas and Electric Company must report this information on a monthly basis if directed to do so by the Commission staff.

15. San Diego Gas and Electric Company may not use the proceeds from the debt authorized by this decision to fund its capital projects until it has obtained all required Commission approvals for the projects, and has complied with all environmental laws and regulations applicable to the projects.

16. San Diego Gas and Electric Company must remit a check for $487,000, as required by §§ 1904(b) and 1904.1 of the Public Utilities Code, to the Commission's Fiscal Office at 505 Van Ness Avenue, Room 3000, San Francisco, CA 94102. The number of this Decision must appear on the face of the check. The authority granted by this Decision is effective once San Diego Gas and Electric Company has paid the fees prescribed by § 1904(b).

17. Application 10-05-016 is closed.

This order is effective today.

Dated ____________________________, at San Francisco, California.