ALJ/MFG/lil **Date of Issuance 9/29/2009**

Decision 09-09-046 September 24, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA GAS COMPANY for Authorization to: (1) Obtain Long-term Debt Capital Not to Exceed the Equivalent of U.S. $800,000,000; (2) Include Certain Features in Debt Securities or Enter into Certain Derivative Transactions; (3) Hedge Issuances of Debt Securities and Preferred or Preference Securities; (4) Obtain Exemptions from the Competitive Bidding Rule; and (5) Take All Other Necessary, Related Actions. (U904G)	Application 09-03-009 (Filed March 5, 2009)

DECISION AUTHORIZING SOUTHERN CALIFORNIA GAS COMPANY TO ISSUE UP TO $800 MILLION OF NEW LONG-TERM DEBT

1. Summary

This decision grants Southern California Gas Company authority to issue up to $800 million of long-term Debt Securities. Debt Securities include: (a) secured debt; (b) unsecured debt; (c) debt placed in foreign capital markets; (d) medium-term notes; (e) direct long-term loans; (f) accounts receivable financing; (g) variable-rate debt; (h) “fall-away” mortgage bonds initially secured and subsequently convertible into unsecured debt; and (i) subordinated debt.

As part of this authority Southern California Gas Company may encumber utility property, including its accounts receivables, to secure Debt Securities and may use hedges to manage interest rate risk. It is also authorized to enter into: (a) put options; (b) call options; (c) sinking funds; (d) interest rate swaps;

(e) swaptions to enter or exit swap agreements under specified terms and conditions; (f) caps and collars; (g) currency swaps; (h) credit enhancements, (i) capital replacement; (j) interest deferral; (k) special-purpose entity transactions; and (l) delayed draw downs.

This decision further exempts certain Debt Securities from the Commission's Competitive Bidding Rule as enumerated in the body of this order and authorizes Southern California Gas Company to report all required General Order 24-B Debt Securities information to the Commission on a quarterly basis unless directed to report on a monthly basis by the Commission staff.

2. Request

Southern California Gas Company (SoCalGas) seeks authorization to issue up to $800 million of Debt Securities, 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 2009 through 2011 to replace maturing long-term debt and to fund capital investments. Capital investments would be for infrastructure investments such as increased storage capacity and upgraded well injection technology at natural gas storage facilities pursuant to Decision (D.) 08-12-020, replacement and expansion of its transmission and distribution facilities, modernization of its aging infrastructure, and an anticipated deployment of gas advanced metering equipment (AMI) pending Commission approval of SoCalGas' AMI Application (A.) 08-09-023 expected to be resolved by the end of 2009.

The principal amount, form, and terms and conditions of each series of Debt Securities will be determined by SoCalGas' board of directors or management according to market conditions at the time of sale or issuance. In general, each series of Debt Securities is expected to have a maturity of between one and 100 years. Medium-term notes are expected to have a maturity of between nine months and 40 years.

SoCalGas intends to utilize debt enhancement features to improve the terms and conditions of its Debt Securities and to lower its overall cost of money for the benefit of its ratepayers. This application was supplemented by March 5, 2009 prepared direct testimonies of Jack S. Lewis and Gary H. Hayes, which were placed in the formal file as Exhibits 1 and 2, respectively.

SoCalGas also seeks authorization to utilize its accounts receivables to secure Debt Securities and to use hedges to manage interest rate risk. Finally, SoCalGas seeks exemptions from the Commission's Competitive Bidding Rule (CBR).

3. Protest

On April 8, 2009, the Division of Ratepayer Advocates (DRA) filed a limited protest to SoCalGas' financing request. While DRA did not conceptually oppose SoCalGas seeking authority to issue long-term debt, DRA is concerned that approval of this financing request would prejudge the outcome of the separate AMI proceeding. Therefore, DRA recommended that the application be denied without prejudice and that SoCalGas submit an appropriate financing application following a final AMI decision.

4. Discussion

Utility applications seeking authority to issue debt or other securities are based on forecasted debt maturities and capital expenditures need. In this proceeding, SoCalGas undertook a three-year budget forecast that resulted in a $2.160 billion to $2.310 billion need for additional monies to replace maturing long-term debt and to fund near-term infrastructure investments. Based on that forecast, SoCalGas seeks $800 million of new long-term debt authority to replace maturing long-term debt and to fund its capital expenditure plans for the period 2009 through 2011.

The following tabulation summarizes the floor, ceiling, and mid-point amounts of SoCalGas' 2009 through 2011 forecasted financial requirements and expected source of funds.

FINANCIAL REQUIREMENTS	(Millions of Dollars)		
	Floor	Ceiling	Mid-Point
Capital Projects	$1,810	$1,960	$1,875
Maturing Long-Term Debt	$350	$350	$350
Total Financial Requirements	$2,160	$2,310	$2,225
SOURCE OF FUNDS			
Internal Cash Flow	$1,345	$1,345	$1,345
Short Term Debt	$80	$80	$80
New Long-Term Debt	$800	$800	$800
Total Source of Funds	$2,225	$2,225	$2,225
Surplus (Deficient) Financial Sources[1]	$65	($85)	0

As in previous financing applications, SoCalGas used the mid-point of its estimated capital expenditure ranges to project a need for $800 million of additional long-term debt financing authority to satisfy its forecasted 2009 through 2011 financial requirements, as summarized in the mid-point column of the prior tabulation.

A granting of financing authority to a utility does not obligate the Commission to approve any capital projects, let alone SoCalGas' AMI project. This financing authority is to provide SoCalGas with sufficient liquidity

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

resources to timely finance its upcoming public utility projects and to refund maturing debt. Review of the reasonableness of capital projects occurs as needed through the regulatory process applicable to each capital project, such as the AMI application and general rate case process. Therefore, any approval of this financing request would not prejudge any of SoCalGas' forecasted projects for the period 2009 through 2011. However, in response to DRA's limited protest we will add an ordering paragraph clarifying that the long-term financing authority being approved by this decision does not result in or imply approval of SoCalGas' AMI or any other 2009 through 2011 forecasted capital project.

5. Approvals

SoCalGas' Debt Securities request is subject to §§ 816 et seq. of the Public Utilities Code.[2] 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 to protect and promote the public interest.

5.1. Issuance of Debt Securities

SoCalGas has substantiated that long-term debt securities are necessary to satisfy its forecasted 2009 -2011 needs for financing capital expenditures, acquiring property, and retiring or refunding maturing securities. These purposes are authorized by § 817 and, as required by § 818, are not reasonably chargeable to operating expenses or income. Therefore, we will grant SoCalGas authority under § 816 et seq. to issue up to $800 million of long-term debt for the aforementioned purposes, as detailed in the application.

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[2] All statutory references are to the Public Utilities Code unless otherwise stated.

The types of Debt Securities that SoCalGas may issue are similar to those authorized in D.06-07-012. The Debt Securities detailed in SoCalGas' application consist of: (a) secured debt; (b) unsecured debt; (c) debt placed in foreign capital markets; (d) medium-term notes; (e) direct long-term loans, (f) accounts-receivable financing; (g) variable-rate debt; (h) fall-away mortgage bonds (bonds that are initially secured and subsequently convertible into unsecured debt); and (i) subordinated debt.

Consistent with § 824, SoCalGas shall maintain records to identify the specific long-term debt issued pursuant to this decision, and demonstrate that proceeds from such debt have been used only for public utility purposes.

5.2. Encumbrance of Utility Property

SoCalGas seeks authority to mortgage and encumber its utility property and accounts receivables 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 thereunder without first having secured from the Commission an order authorizing it to do so.

Consistent with previous Commission decisions, we will authorize SoCalGas to mortgage and encumber its utility property, including its accounts receivables, to improve the terms and conditions of the Debt Securities and to lower SoCalGas' overall cost of money for the benefit of ratepayers.[3]

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[3] *See*, for example, D.06-05-015.

5.3. Debt Enhancements

SoCalGas seeks authority to include certain debt enhancements to improve the terms and conditions of its Debt Securities and to lower the overall cost of money for the benefit of the ratepayers. These debt enhancements, detailed in its application, consist of: (a) put options; (b) call options; (c) sinking funds; (d) interest rate swaps; (e) swaptions; (f) caps and collars; (g) currency swaps; (h) credit enhancements; (i) capital replacement; (j) interest deferral; (k) special-purpose entity transactions; and (l) delayed drawdown.

The Commission has previously allowed SoCalGas authority to use each of these debt enhancements, most recently by D.06-04-004. We again authorize SoCalGas to use these previously approved forms of credit enhancements to lower the overall cost of money for the benefit of the ratepayers.

5.4. Hedges

SoCalGas also seeks authority to hedge the issuance of debt securities so that it may enter financial markets at times when interest rates or other circumstances appear most favorable. Its seeks to hedge under two strategies, price today, fund later and fund today, price later. Its price today, fund later hedging strategy allows SoCalGas to lock in an interest rate, even though it may not be able to issue securities due to legal, regulatory, economic or other reasons. Hedges under this strategy include Treasury lock, Treasury options, and interest rate swaps. Its fund today, price later strategy allows SoCalGas to fund immediately and price the securities after interest rates have declined. Hedges under this strategy include long hedges, Treasury options and interest rate swaps.

These hedging strategies of SoCalGas are the same hedging strategies and techniques approved by the Commission in D.06-07-012. Consistent with

D.06-07-012, SoCalGas should be authorized to hedge the issuance of debt securities as summarized above and detailed in its application.

Although the application seeks no new authority to issue long-term debt, and preference stock granted in D.06-07-012 and D.96-09-036, SoCalGas presumes and seeks Commission confirmation that the authority to use debt enhancements and hedging in this decision be similarly authorized for the unused financing authority previously granted in D.06-07-012 and D.96-09-036. Those debt enhancements and hedging terms authorized in D.06-07-012 and D.96-09-036 are consistent with this decision and remain applicable to the unissued portion of the preference stock and long-term debt authorized in those decisions.

However, we are concerned about the level of transparency with regard to the volume of hedging transactions, and plan to take a closer look at this in future proceedings.

5.5. Competitive Bidding Rule Exemption

Resolution No. F-616, issued on October 1, 1986, requires utilities to issue debt using competitive bids and modified prior policy by allowing for telephonic competitive bidding. The purpose of this requirement, known as the Competitive Bidding Rule (CBR), is to reduce the cost of debt issued by utilities. The Resolution also provides for utilities to seek CBR exemptions for debt issues in excess of $200 million. An exemption request will only be granted upon a compelling showing by a utility that an exemption is warranted because of the size of the issues.

5.5.1. Telephonic Bidding

Consistent with the available use of telephonic bidding, SoCalGas requests that the Commission authorize SoCalGas to utilize electronic means other than telephone, such as e-mail: (a) for the invitation of bids; (b) for the receipt of bids from two or more underwriters or underwriting syndicates; (c) 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 (d) to reject all bids and request resubmission of bids. Other means such as electronic mail is consistent with the Resolution F-616 authorization of telephonic bidding.

5.5.2. Debt Securities in Excess of $200 Million

SoCalGas 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 from the CBR on issues in excess of $200 million to meet its financing requirements on more favorable terms. SoCalGas seeks this exemption on the basis that:

1. Competitive bidding of larger issues divides competitive bidding syndicates composed of fewer participants, increasing the risk that the winners of a competitively bid issuance will be unable to efficiently and profitably distribute SoCalGas' securities in a secondary market.

2. There has been considerable consolidation in the financial services sector resulting in the existence of fewer investment and commercial banks, 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, communicates with potential investors to develop an order book for the securities, and results in a reduction in the number of bonds each syndicate member must resell under a competitive bid process.

4. A negotiated offering may provide greater flexibility to adjust the timing and terms of a proposed debt offering to meet changing market conditions.

Finally, SoCalGas represents that competitive bidding of large offerings of more than $200 million may have the unwanted effect of limiting Diverse Business Enterprises (DBE) consisting of small underwriting firms from participation on SoCalGas' offerings. To date, SoCalGas, along with San Diego Gas & Electric Company (SDG&E), have employed eight DBE firms in five offerings of $250 million or more, and SoCalGas' treasury group is cultivating new DBE relationships for future transactions. These DBE firms are generally less capitalized and have more limited distribution capabilities than large Wall Street underwriters. Such limitation could force most, if not all, of SoCalGas' DBE firms to decline participation in a competitive issuance of $200 million or more. Therefore, SoCalGas seeks a CBR exemption for debt issuances in excess of $200 million, as granted in its two most recent financing proceedings, which would enable SoCalGas to continue its efforts to add DBE underwriters to its syndicates.

5.5.3. Securities Not Applicable to Competitive Bidding

SoCalGas explains that certain of the Debt Securities requested in its application 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 SoCalGas seeks a CBR exemption to provide it with added flexibility to take advantage of market opportunities. Specifically, SoCalGas 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.

5.5.4. One-Day Notice Period

SoCalGas seeks authority to eliminate the one-day notice requirement referred to in Resolution F-616. SoCalGas 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 more favorable by minimizing the period of time between the issuance of an invitation for bids and the scheduled receipt of bids and make adjustments in the size or terms of an offering up to the last moment in response to current market conditions.

5.5.5. Conclusion

SoCalGas' request for the previously described exemptions and modifications from, and modifications to, the CBR is granted on SoCalGas' representation that granting the exemptions and modifications will enable it to obtain debt in a manner advantageous to SoCalGas; and its ratepayers, and that the Commission has routinely granted SoCalGas and other utilities similar exemptions and modifications[4] with no discernable adverse impacts on the utilities, their customers, or the public at large. However, SoCalGas should be aware that the Commission will be revisiting the CBR and may make changes to the rule that impact SoCalGas. To the extent that SoCalGas has not exercised its entire requested financing authority upon the effective date of any changes to the CBR, SoCalGas will be required to comply with those changes, if applicable, in exercising its remaining financing authority.

We make no finding regarding the reasonableness of the rates, terms, and conditions of debt issued by SoCalGas pursuant to the exemptions and modifications granted herein. However, we will review the reasonableness of the interest rate and associated fees in SoCalGas' next general rate case, performance- based ratemaking, or cost of capital proceeding.

Additionally, in view of currently distressed state of our financial markets, there are greater opportunities for emerging firms, including women, minority, and disabled service veteran underwriters to serve as lead and/or co-lead managers of the debt authorized herein. This would promote healthy competition in our financial marketplace and provide additional opportunities to strengthen emerging firms, to the ultimate benefit of SoCalGas' ratepayers and shareholders. We may evaluate the debt issuance practices of SoCalGas and our other investor owned utilities (IOUs) in a future review of our F-616 Competitive Bidding Rule (CBR) as well as other IOU applications seeking authority for debt issuance.

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[4] *See*, for example, D.04-10-037 (2004) *mimeo.,* pp. 50-51; and D.03-12-004, *mimeo.,* pp. 32-33.

6. 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 utilities authority to report quarterly the information required by GO 24-B in order to reduce their administrative cost of complying with the GO and to conform to past practice.[5] SoCalGas should be treated no differently. SoCalGas may report quarterly to the Commission the information required by GO 24-B. However, SoCalGas shall report this information on a monthly basis if directed to do so by the Commission staff.

7. 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 § 1904(b).

SoCalGas expected to use the full $800 million of the proposed financing proceeds to reimburse its treasury for monies expended or to be expended for the expansion and betterment of utility plant and discharge of its indebtedness

[5] *See*, for example, D.05-08-008 *mimeo.*, at 36, D.04-10-037 (2004) *mimeo.,* at 51; and, D.03-12-052 (2003) *mimeo.,* at 11-12.

or debt to be retired at maturity. SoCalGas calculated its fee to be $406,000 based on its entire $800 million financing request, as detailed in Schedule X to Exhibit 1.

However, $350 million of its requested $800 million financing request will be used to retire maturing long-term debt and is therefore exempt from any fees. This is because a fee is not applicable on any issue 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. (§ 1904.1.) Therefore, SoCalGas should pay a fee on only $450 million of the $800 million of long-term debt being authorized by this decision ($800 million less $350 million to be used to retire existing long-term debt). If SoCalGas actually uses any of the $350 million for purposes other than the retirement or refund of indebtedness previously issued, it shall notify the Commission in writing, pay the corresponding fee, and identify in its next Debt Securities report after issuance how it used the $350 million of long-term debt earmarked to replace existing long-term debt.

SoCalGas shall remit the required $231,000 fee to the Commission's Fiscal Office.[6] The authority granted by this order shall not become effective until SoCalGas remits the $231,000 fee to the Commission's Fiscal Office.

8. Financial Information

We place SoCalGas on notice that the reasonableness of any resulting interest rate and cost of money arising from debt capital as well as capital structures, are normally subject to review in the appropriate cost of capital or

[6] The fee is assessed on $450 million of authorized Debt as follows: $2 times $1,000,000/$1,000 plus $1 times $9,000,000/$1,000 plus $0.5 times $440,000,000/$1,000 equals $231,000.

general rate case proceeding. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes. We will not make a finding in this decision on the reasonableness of SoCalGas' 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.

9. California Environmental Quality Act

Under the California Environmental Quality Act (CEQA) and Rule 2.4 of the Commission's Rules of Practice and Procedure (Rules), we must consider the environmental consequences of projects that are subject to our discretionary approval.[7] Thus, we must consider whether approval of this application will alter an approved project, result in new projects or change operations in ways that have an environmental impact.

This decision does not authorize any capital expenditures or construction projects. New construction projects which SoCalGas intends to finance via this application should undergo a CEQA review as early as feasible in the planning process, as required by CEQA Guidelines Section 15004(b). Ongoing projects have already been subject to any necessary CEQA review undertaken prior to SoCalGas receiving a certificate of public convenience and necessity or permit to construct. To the extent capital expenditures are financed with the proceeds of

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[7] Public Resources Code Section 21080.

the long-term debt issued pursuant to this decision, CEQA review should occur as needed through the regulatory processes applicable to each capital project.

10. Category and Need for Hearings

SoCalGas requested that this matter be categorized as ratesetting. By Resolution ALJ 176-3230, dated March 12, 2009, the Commission preliminarily determined that this was a ratesetting proceeding and that a hearing would not be necessary.

Notice of the application appeared in the Commission's Daily Calendar of March 9, 2009. Based on the record, we affirm that this is a ratesetting proceeding, and that a hearing is not necessary.

11. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on August 31, 2009 by SoCalGas. SoCalGas comments resulted in a substantive change of authorizing financing authority for its full $800 million request to provide SoCalGas flexibility to meet its 2009 through 2011 financing needs.

12. Assignment of Proceeding

Timothy Alan Simon is the assigned Commissioner and Michael J. Galvin is the assigned ALJ in this proceeding.

Findings of Fact

1. SoCalGas has forecasted a $2.225 billion financial need to replace maturing long-term debt and to fund capital expenditures for the period 2009 through

2011 of which $1.345 billion would be provided by internally generated funds, $80 million short-term debt and $800 million new long-term debt.

2. SoCalGas seeks authority to issue $800 million of Debt Capital.

3. SoCalGas has approximately $230 million of authorized but unissued Debt Securities and $200 million of authorized but unissued Preferred Stock Securities.

4. Debt Securities used to retire long-term debt are excluded from the Commission's fee calculation pursuant to Section 1904.1 of the Public Utilities Code.

5. SoCalGas seeks authority under § 851 to issue First and Refunding Mortgage Bonds and to use its accounts receivables to secure its debt.

6. SoCalGas seeks authority to issue additional types of Debt Securities using a wide variety of means.

7. SoCalGas seeks authority to manage interest rate risk with hedges.

8. Resolution F-616 requires utilities to issue debt using competitive bids. The Resolution 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 such as variable-rate debt.

9. SoCalGas, along with SDG&E, have employed eight DBE firms in five offerings of $250 million or more, and SoCalGas' treasury group is cultivating new DBE relationships for future transactions.

10. SoCalGas represents that granting its requested exemptions from, and modifications to the CBR will enable SoCalGas to obtain debt in a manner that is advantageous to SoCalGas and its ratepayers.

11. The Commission does not by this decision determine that SoCalGas' construction budget, cash requirements forecast, and capital structure are

necessary or reasonable for ratemaking purposes. These issues are normally reviewed and authorized in general rate case or cost of capital proceedings.

12. 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.

13. The Commission has routinely 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.

14. This application does not propose, and today's Decision does not authorize, any specific new construction or changes in use of existing assets and facilities.

15. Notice of A.09-03-009 appeared in the Commission's Daily Calendar.

16. In Resolution ALJ 176-3230, the Commission preliminarily determined that this proceeding should be categorized as ratesetting and that a hearing would not be necessary.

Conclusions of Law

1. This is a ratesetting proceeding.
2. There is no need for hearings.
3. A granting of financial authority to a utility does not obligate the Commission to approve any capital projects.

4. Review of the reasonableness of capital projects occur as needed through the regulatory process applicable to each capital project, such as the AMI application and general rate case process.

5. Approval of this financing request does not prejudge any of SoCalGas' forecasted projects for the period 2009 through 2011.

6. SoCalGas' CBR exemption requests are reasonable and should be granted.

7. The authority granted by this Decision should not become effective until SoCalGas has paid the fees prescribed by § 1904(b).

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

9. The following Decision should be effective immediately so that SoCalGas may issue as soon as possible the debt authorized herein.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company is authorized to issue up to $800 million of new long-term debt to replace maturing long-term debt and to fund capital investments as described more fully within this decision.

2. The long-term debt financing authority being approved by this decision does not result in or imply approval of Southern California Gas Company's Advance Metering Equipment project or any other 2009 through 2011 forecasted capital project.

3. Southern California Gas Company may encumber utility property, including accounts receivables, to secure Debt Securities authorized by this Decision and may use hedges to manage interest rate risk.

4. Southern California Gas Company may enter into hedges, put options, call options, sinking funds, interest rate swaps, swaptions, caps and collars, currency swaps, credit enhancements, capital replacement, interest deferral, special-purpose entity transactions and delayed drawdowns as enumerated in the body of this Decision. These features are also authorized for the unused authority granted in Decisions 06-07-012 and Decision 96-09-036.

5. Southern California Gas Company is authorized to utilize electronic means other than telephone, such as e-mail: (a) for the invitation of bids; (b) for the receipt of bids from two or more underwriters or underwriting syndicates; (c) 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 (d) to reject all bids and request resubmission of bids.

6. Consistent with the Competitive Bidding Rule, Southern California Gas Company shall offer through competitive bidding fixed rate debentures and First Mortgage Bonds of $200 million or less in principal amount that are sold publicly in the domestic market.

7. Southern California Gas Company is exempted from the Competitive Bidding Rule on issues in excess of $200 million to meet its financing requirements on more favorable terms.

8. Southern California Gas Company is exempted from the Competitive Bidding Rule with respect to Debt Securities other than domestic fixed-rate debentures and First Mortgage Bonds, including without limitations:

medium-term notes, foreign debt; long-term loans; subordinated debt; and special-purpose entity transactions.

9. Southern California Gas Company is exempted from the Competitive Bidding Rule's one-day notice requirement.

10. To the extent that Southern California Gas Company has not exercised its entire authorized financing authority upon the effective date to any changes to the Competitive Bidding Rule, Southern California Gas Company shall be required to comply with those changes, if applicable, in exercising its remaining financing authority.

11. Southern California Gas Company may report on a quarterly basis all the information required by General Order 24-B with respect to debt issued pursuant to this Order. However, Southern California Gas Company shall report this information on a monthly basis if directed to do so by the Commission staff.

12. Southern California Gas Company shall pay a fee on only $450 million of new $800 million long-term debt Securities being authorized by this decision ($800 million less $350 million earmarked to retire existing long-term debt).

13. Southern California Gas Company shall remit a check for $231,000 as required by Section 1904(b) 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 shall appear on the face of the check.

14. The authority granted by this Decision shall not become effective until Southern California Gas Company remits $231,000 to the Commission's Fiscal Office.

15. The $350 million of new debt financing earmarked for the retirement or refund of indebtedness previously issued is not subject to a fee pursuant to Public Utilities Code Section 1904.1. However, to the extent that Southern

California Gas Company uses any of this new debt financing for purposes other than the retirement or refund of indebtedness previously issued it shall notify the Commission in writing, pay the corresponding fee, and identify in its next Debt Securities report after issuance how it used the long-term debt earmarked to replace existing long-term debt.

16. Southern California Gas Company shall comply with all applicable environmental laws and regulations when planning and implementing any capital expenditure programs financed, in whole or in part, with the proceeds from the debt authorized by this Decision.

17. Application 09-03-009 is closed.

This decision is effective today.

Dated September 24, 2009, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners