Mailed
7/30/03

ENERGY/ICRJ/RHG

Decision 03-07-008 July 10, 2003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY U-904-G for Authorization to: (1) obtain long-term debt capital not to exceed the equivalent of U.S. $715,000,000, of which not less than $500,000,000 will be applied to, or used to reimburse its treasury for, the discharge of indebtedness and/or preferred stock; (2) obtain an exemption from the Competitive Bidding Rule; (3) enter into interest rate swaps, caps, collars and/or currency exchange contracts; and (4) take all other necessary, related actions.	Application 03-03-042 (Filed March 24, 2003)

OPINION

Summary

This decision grants Southern California Gas Company (SoCalGas) the authority requested in Application (A.) 03-03-042 (Application).

SoCalGas requests authority, pursuant to Articles 5 and 6 of Chapter 4, Part 1, Division 1 of the Public Utilities (Pub. Util.) Code and Rules 33 and 34 of the California Public Utilities Commission's Rules of Practice and Procedure for the following:

1. To obtain long-term debt capital in an aggregate principal amount not to exceed the equivalent of U.S. $715,000,000 through the issuance and sale (including, by exchange for

outstanding debt or equity securities of utility) of SoCalGas' First Mortgage Bonds, debentures, promissory notes or other evidences of its indebtedness (including, without limitation, overseas indebtedness and foreign securities) and the incurrence of loans (domestic or foreign) or other borrowings (such debt capital is collectively referred to as the "Debt Securities") in one or more financings in domestic or foreign capital markets;

2. To obtain an exemption from the Commission's Competitive Bidding Rule (a) for the issuance of fixed interest rate debentures and First Mortgage Bonds in excess of U.S. $200,000,000 principal amount and (b) to eliminate the one-day notification requirement to solicit bids;

3. To use the net proceeds from the Debt Securities to reimburse its treasury for monies expended or to be expended for, (a) the expansion and betterment of utility plant and/or (b) the discharge of its indebtedness or preferred stock retired or to be retired at maturity or through sinking fund payments, redemption, prepayment (including premiums, if any), repurchase or otherwise (not less than $500 million from the net proceeds will be applied toward these purposes); and

4. To enter into one or more interest rate swaps, caps, collars and/or currency exchange contracts.

Notice of the filing appeared on the Commission's Daily Calendar of March 28, 2003. No protests have been received.

Background

SoCalGas is a public utility organized and existing under the laws of the State of California. It is a gas corporation subject to the jurisdiction of this Commission, engaged in the business of providing public utility gas service in southern and central California.

SoCalGas has previously issued long-term borrowings and equity securities authorized by this Commission. Most recently in Decision (D.) 96-09-036 (A.96-05-030) the Commission authorized the utility, among others, to (1) issue first mortgage bonds, debentures and notes, medium-term notes, commercial paper, foreign capital markets, and loans not to exceed $600,000,000; (2) obtain equity capital not to exceed $100,000,000 by the issuance and sale of its shares of its capital stock designated "Series Preferred Stock" or "Preference Stock"; and (3) enter into rate payment exchange, cap, collar and currency exchange contracts. That decision also approved some exemptions from the Competitive Bidding Rule.

In its Supplement to the Application dated May 28, 2003, SoCalGas reported that it issued in three bond series, a total of $380,794,000 against the authority granted in D.96-09-036, using the proceeds for expansion and betterment of utility plant, refunding and retirement of indebtedness, and replenishment of funds previously expended.

For the fiscal year ended December 31, 2002, SoCalGas reported total operating revenues of $2,858,000,000 and net income of $212,000,000, as shown in its Income Statement, attached as Exhibit B to the Application. SoCalGas' Balance Sheet at December 31, 2002, shown also as part of

Exhibit B, is summarized as follows:

Assets and other Debits	Amount
Net Utility Plant	$2,787,000,000
Current Assets	908,000,000
Other Assets	384,000,000
Total	$4,079,000,000

Capitalization and Liabilities	
Shareholders' Equity	$1,340,000,000
Long-term Debt	657,000,000
Current Liabilities	1,133,000,000
Deferred Credits & Other Liabilities	949,000,000
Total	$4,079,000,000

Discussion

SoCalGas seeks authorization to obtain debt capital in an aggregate principal amount not to exceed $715,000,000 through the issuance and sale of Debt Securities in one or more financings in domestic or foreign capital markets.

This Application is for additional debt capital, over and above the authority granted in Decision (D.) 96-09-036[1], of which $217,000,000 of debt capital and $100,000,000 of preferred equity capital remains available for issuance.

[1] This decision authorized SoCalGas to obtain long-term debt capital of $600 million and preferred equity capital of $100 million. Against this authority, SoCalGas issued two medium-term notes in an aggregate principal amount of $133 million and one series of First Mortgage Bonds in an aggregate principal amount of $250 million. SoCalGas has not issued preferred equity.

Debt Securities

SoCalGas states in the Application that the precise amount and timing of each financing, the market in and method by which it is effected, price and interest rate (which may be fixed, adjustable, variable or set by auction or remarketing procedures) and other material provisions of the Debt Securities issued in each financing will be determined by the utility, within the constraints set forth below, with due regard for its financial condition, requirements and then prevailing and anticipated market conditions.

The Debt Securities may be issued as one or more additional series of SoCalGas' First Mortgage Bonds or as debentures, promissory notes or other evidences of its secured or unsecured indebtedness, including, without limitation, overseas indebtedness, foreign securities and foreign and domestic loans. Each financing will be effected through the use of indentures, bidding and offering documents, purchase agreements, loan agreements, underwriting agreements or other documents and instruments customary for the financing method selected by the utility.

SoCalGas anticipates that the cost of certain Debt Securities may be reduced by the inclusion of a repurchase option. This option would permit the holders of such Debt Securities to require SoCalGas to repurchase all or a portion of each holder's Debt Securities. Generally, debt holders are willing to accept a lower interest rate in exchange for the protection that a repurchase option offers them.

A general description of the types of Debt Securities that SoCalGas may issue, as shown on pages 5 and 6 of the Application, is set forth below:

1. First Mortgage Bonds – will be issued in conformity with the provisions of, and secured by, SoCalGas' First Mortgage Indenture, dated October 1, 1940, as amended and supplemented.

2. Debenture and Notes – the Debt Securities, if issued in the form of debentures or promissory notes, will be issued in accordance with an indenture, purchase agreement or other document that will set forth the aggregate principal amount, maturity, default and other material provisions of the securities.

3. Medium-Term Notes – may be offered on a continuous or periodic basis with maturities ranging from nine months to 15 years (although they can extend as far as 30 years). They may be sold in public or private offerings, with fixed or floating rates, in senior or subordinated form. Medium-Term Notes are generally sold on a best efforts or agency basis and can be tailored to an investor's specific maturity needs so as to achieve the lowest cost of funds.

4. Foreign Capital Markets – Debt Securities issued by the utility in foreign capital markets may be denominated in, or proceeds from their sale received in, United States Dollars or in other currencies. To reduce or eliminate the risk of currency fluctuations, SoCalGas may engage in currency exchanges or purchases and sales and other arrangements. SoCalGas intends to confine its financings in foreign capital markets and its financings involving foreign currencies to those periods in which it is reasonably confident that the financing, including any related currency transactions, will provide more favorable terms and conditions than are concurrently available to it in domestic capital markets or through financings not involving foreign currencies. During other periods,

SoCalGas will confine its financings to domestic capital markets or to those not involving foreign currencies.

We note herein that in D.96-09-036, the Commission also authorized SoCalGas to issue foreign indebtedness. Pursuant to the May 28th Supplement to the Application, SoCalGas has not utilized this debt option and therefore has not incurred any foreign debt since D.96-09-036 was issued.

5. Loans- from time to time it may be advantageous for SoCalGas to borrow directly from domestic or foreign banks, insurance companies or other financial institutions. The utility intends to confine its borrowings of this nature to situations designed to result in a lower overall cost of money and / or more advantageous terms and conditions than are available through the issuance of Debt Securities.

Interest Rate Swaps, Caps, Collars, and Currency Exchange Contracts

SoCalGas also requests authority to enter into one or more interest rate swaps, caps, collars and / or currency exchange contracts from time to time as enhancements to the Debt Securities to improve the terms and conditions of the Debt Securities and / or to lower the overall cost of money for the benefit of ratepayers.

1. Interest Rate Swap – this is a contractual agreement between two parties to exchange a series of payments for a stated period. In a typical Interest Rate Swap, one party issues fixed-rate debt while another issues floating rate debt, and the two swap interest payment obligations based on a notional principal amount[2] (the principal itself is not exchanged). Swaps are generally used to reduce either fixed-rate or floating-rate costs, to

[2] Equal to the debt's stated, par, or book value as opposed to its actual or market value.

guaranty liquidity, and to convert fixed rate borrowing to floating. In an interest rate swap, for example, each period's interest rates are multiplied by the notional principal amount to determine the actual amount each counterparty must pay. The notional amounts are not exchanged, so any credit risk is limited to the net amount payable plus a potential future exposure factor.

SoCalGas anticipates to enter into swap contracts only when it is expected that such arrangements will provide an overall cost of money lower than that available through the issuance of alternate Debt Securities.

2. Caps and Collars – in order to reduce ratepayers' exposure to interest rate risk on variable-rate securities, SoCalGas may negotiate some type of maximum rate, usually called a cap. In that case, even if variable rates increase above the cap (or ceiling) rate, it will only pay the ceiling rate. In addition to the ceiling rate, sometimes a counterparty will desire a "floor" rate. In the event that the variable rate falls below the floor rate, the utility will pay the floor rate. The combination of a floor and a ceiling rate is called an interest-rate "collar" because the borrower's interest expense is restricted to a band negotiated by the borrower and the counterparty. Such protection for variable rate obligations is not unlike protection negotiated by consumers for variable-rate home mortgages.

3. Currency Exchange Contracts – in the event SoCalGas issues securities denominated in currencies other than United States Dollars, to reduce or eliminate the risk of currency fluctuations, the utility may enter into one or more currency exchange contracts or purchases and sales or other arrangements. Currency exchange contracts are agreements by which a counterparty would be obligated to pay the other party the foreign currency the other party needs to make interest, dividend or

principal payments. In exchange, the counterparty would be paid in United States Dollars based on a pre-determined formula. Currency exchange contracts would be entered into with financial institutions or directly with principals in need of United States Dollars.

Pursuant to the Application, interest rate swaps, caps, collars and currency exchange contracts would provide SoCalGas with additional tools to assist in managing its cost of capital and may reduce the all-in cost of floating and fixed-rate Debt Securities.

SoCalGas states in the Application that it will enter into interest rate swaps contracts with respect to debt financings only if, after giving effect thereto, the aggregate notional amount covered by interest rate swaps contracts with respect to debt financings shall not exceed 30% of SoCalGas' total debt then outstanding. SoCalGas believes that this ceiling on the use of swaps is a prudent limitation in that it prevents utility from converting without further review by this Commission an unreasonable amount of its fixed-rate debt into floating-rate debt through swaps[3].

In D.96-09-036, the Commission allowed SoCalGas a limit for interest rate swaps for debt financings of 20% of total debt and for preferred equity financings of 40% of total preferred equity then outstanding. There is no evidence in the record as to how these limits were determined.

As part of the Supplemental Data to the Application dated May 28, 2003, SoCalGas states that on December 11, 2001, it entered into an interest-rate swap which effectively exchanged the fixed rate on its $175

---

[3] While SoCalGas looks to studies that conclude 30% is a desirable floating-debt target, a simplified stress test confirms the overall prudence of the proposed ceiling: were the interest expense on the swapped portion of a fixed-rate debt portfolio to rise to twice the original fixed coupon, assuming the fixed coupon on the entire debt portfolio is constant, the overall debt cost would rise only 30%.[0.7(fixed rate) + 0.3(2)(fixed rate) = 1.3(fixed rate)].

million, 6.875% First Mortgage Bond Series EE for a floating rate equal to three-month LIBOR plus 4 basis points (0.04%). On September 30, 2002, SoCalGas terminated the swap. During the time the swap was in effect, its floating rate approximated 1.93%, or 4.934% percentage points below the bond's fixed rate of interest, thus reducing the company's interest expense during that time by approximately $7 million before tax.

Interest rate swaps are used by a wide range of commercial banks, investment banks, non-financial operating companies, insurance companies, mortgage companies, investment vehicles and trusts, government agencies and sovereign states for any of the following reasons:

1. To obtain lower cost funding.
2. To hedge interest rate exposure.
3. To obtain higher yielding investment assets.
4. To implement overall asset or liability management strategies.
5. To take speculative positions in relation to future movements in interest rates.

The advantages of interest rate swaps include the following:

1. A floating-to-fixed swap increases the certainty of an issuer's future obligations.
2. Swapping from a fixed-to-floating rate may save the issuer money if interest rates decline.
3. Swapping allows issuers to revise their debt profile to take advantage of current or expected future market conditions.
4. Interest rate swaps are a financial tool that potentially can help issuers lower the amount of debt service.

For purposes of this Application, SoCalGas will be subject to the following conditions in relation to interest rate swaps, caps, collars and currency exchange contracts:

1. The aggregate total amount of SoCalGas' new and outstanding interest rate swap contracts with respect to debt financings should not exceed 30% of total debt.

2. SoCalGas should enter into interest rate swap contracts only when it is expected that such arrangements will provide an overall cost of money lower than that available through the issuance of alternate Debt Securities.

3. If SoCalGas elects to terminate any debt enhancement contract before the original maturity or the other party terminates, all costs associated with the termination will be subject to review in SoCalGas' cost of capital proceeding.

4. Interest rate swap contracts carrying potential counterparty risk must have conterparties with credit ratings equal to or better than SoCalGas.

5. Within 30 days of a request by the Audit and Compliance Branch (ACB), SoCalGas should make available a report analyzing swap contracts including all costs associated with the transaction in comparison to a projection of all-in cost without a swap contract.

6. Within 30 days of a request by ACB, SoCalGas should make available a complete copy of the executed agreement and all associated documentation.

7. SoCalGas should separately report all interest income and expenses arising from all swap transactions in all monthly and annual financial reports to the Commission.

We place SoCalGas on notice that the reasonableness of any resulting interest rate and cost of money arising from debt capital are normally subject to review in cost of capital or general rate case proceedings.

Competitive Bidding Rule

SoCalGas requests an exemption from the Competitive Bidding Rule for the issuance of fixed interest rate debentures and First Mortgage Bonds in excess of U.S. $200,000,000 principal amount.

SoCalGas states that compelling circumstances exist for an exemption for issues in excess of $200,000,000 principal amount and that such exemption would provide SoCalGas the flexibility to meet its financing requirements on the most favorable terms available. For instance, the size of a debt offering may be determinative of whether competitive bidding or a negotiated offering will result in the lowest cost. In a competitively bid offering, the investment community is divided into competing bidding syndicates, with fewer participants and increased risk for each participant. Competitive bidding tends to fragment the capital commitment and placement capabilities of underwriters, who must work against each other and have less time to gauge and build market demand for an offering. In contrast, in a negotiated offering, a single underwriting syndicate can be formed that consists of a greater number of participants.

Consequently, a negotiated offering for issues in excess of $200,000,000 may result in a lower cost of funds. In addition, a negotiated offering may provide greater flexibility to adjust the timing and terms of a proposed debt offering to meet changing market conditions.

SoCalGas also requests authorization to effect its financings, other than domestic underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds, without competitive bidding.

Exhibit A to Res. F-616 states: "Securities privately placed with specific lenders and bank term loans obviously must be negotiated. Competitive bidding is not presently available in European or Japanese markets. Certain tax-exempt pollution control bonds have terms that are specifically negotiated. Variable interest rate debt securities are normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule."

Moreover, notes and variable rate debt securities are sold through a placement agent on a reasonable-efforts basis in a manner analogous to that used for issuing commercial paper. Also, structured transactions (rate payment exchange or swap contracts entered into in conjunction with the issuance of Debt Securities) are specifically negotiated since the interest rate paid on the swap and the debt security must be established.

Finally, SoCalGas seeks authority to (1) eliminate the one-day notice requirement of the Competitive Bidding Rule referred to in Res. F-616, (2) telephonically invite the submission of bids and to receive bids by telephone in lieu of newspaper publication of an invitation for bids and the submission and opening of sealed written bids, (3) telephonically accelerate, postpone or cancel the scheduled date and time for the receipt of bids and/or vary the terms and provision of the securities submitted for bid, and (4) if appropriate, reject all bids and telephonically request the resubmission of bids for securities with the same terms and provisions.

The Application states that through the use of the Securities and Exchange Commission's (SEC) shelf registration procedures, it is possible to price an offering when market conditions appear most favorable. It is therefore desirable to be able to minimize the period of time between the issuance of an invitation for bids and the scheduled receipt of bids. The time interval between these events reasonably may be shortened to as little as a few hours. Further, it is desirable to be able to make adjustments in the size or terms of an offering up to the last moment in response to the current market conditions. Prospective bidders do not require twenty-four hour notification to adequately respond to an invitation for bids or to adjust terms.

The SEC's shelf registration procedures have been in effect for over 20 years. They permit an issuer who meets specified financial and other standards to register, in a single registration statement, securities that it may offer on a delayed or continuous basis. After the registration statement has been declared effective by the SEC, the issuer may take down the shelf securities in one or more offerings simply by supplementing the base prospectus that is included in the shelf registration statement with a prospectus supplement that describes the specific terms of the securities to be issued.

In contrast, non-shelf offerings require the issuer to file a registration statement with the SEC that is specific to the particular offering and the offering cannot be effected until the SEC declares the registration statement effective. As a result, non-shelf offerings may result in significantly less flexibility than shelf offerings in the timing of the offering and the ability to adjust the terms of the offered securities to rapidly changing market conditions.

SoCalGas states in the May 28th Supplement to the Application that from the time the shelf registration procedures first became available, it has used shelf registration procedures for all of its offerings. It has done so for both competitive bid and negotiated offerings.

Reduction or elimination of competitive bidding notice requirements is entirely consistent with shelf registration procedures. After a shelf registration statement has been declared effective by the SEC (usually well in advance of an actual offering of the securities), the shelf securities may be competitively bid and the results of the bidding immediately reflected in a prospectus supplement. The supplement is simply filed with the SEC and, since there is no requirement to await SEC "effectiveness" for the supplement, there is no delay between the bidding and the offering of the securities by the successful bidder.

Under the terms of Res. F-616, we entertain requests for exemptions from the Competitive Bidding Rule for debt issues in excess of $200 million and may grant such exemptions upon a compelling showing by a utility that, because of the size of an issue, such an exemption is warranted. Under Res. F-616, we may also exempt all "debt issues for which competitive bidding is not viable or available." In Res. F-616 we stated that telephonic competitive bidding is allowable, modifying our prior policy.

The Competitive Bidding Rule, first adopted in 1946 and amended a half-dozen times since, has evolved over the years to track changes in the financial markets, utilities' financing practices, and regulatory changes. The exemptions we are granting SoCalGas in this decision have become more and more accepted, to the point that some appear to have become routine. Since the Rule has not been re-evaluated since 1986, and no specific conditions have been revised or discontinued, we find SoCalGas' request and reasons for exemption to be within the purview of the modified and prevailing conditions of enforcement and exemptions defined in Res. F-616.

We will grant SoCalGas the exemptions requested in the Application. However, all underwritten public offerings of fixed interest rate debentures and First Mortgage Bonds in the principal amount of $200 million or less that will be effected in the domestic capital markets must be competitively bid.

Financial Information

For the fiscal year ended December 31, 2002, SoCalGas reported total operating revenues of $2,858,000,000 and net income of $212,000,000, as shown in its Income Statement, attached as Exhibit B to the Application. SoCalGas' Balance Sheet at December 31, 2002, shown also as part of Exhibit B, is summarized as follows:

Assets and other Debits	Amount
Net Utility Plant	$2,787,000,000
Current Assets	908,000,000
Other Assets	384,000,000
Total	$4,079,000,000
Capitalization and Liabilities	
Shareholders' Equity	$1,340,000,000
Long-term Debt	657,000,000
Current Liabilities	1,133,000,000
Deferred Credits & Other Liabilities	949,000,000
Total	$4,079,000,000

Construction Budget

SoCalGas' recorded 2002 and estimated construction budgets for 2003 through 2005, as shown in Exhibit C to the Application, are as follows:

($000)

	Recorded	Estimated		
Components	2002	2003	2004	2005
Distribution:				
New installations	47,000	47,000	52,000	50,000
Replacements	156,000	193,000	208,000	201,000
Transmission	56,000	44,000	73,000	71,000
Underground storage	26,000	22,000	24,000	23,000
General plant	46,000	49,000	72,000	70,000
Total	331,000	355,000	429,000	415,000

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 general rate cases.

Cash Requirements Forecast

SoCalGas' estimate of cash requirements for 2003 through 2005 is summarized as follows:

($000)

Components	2003	2004	2005
Construction expenditures	(355,000)	(429,000)	(415,000)
Retirement and redemption of long-term debt	(500,000)		
Beginning of year cash (short-term debt) balance	22,000	68,059	43,691
Subtotal	(833,000)	(360,941)	(371,309)
Less: Estimated cash available from internal sources	149,782	239,632	347,385
External funding required (to be provided from sale of debt securities)	(683,218)	(121,309)	(23,924)

SoCalGas' cash requirements forecast indicates that it would require funds from external financing sources amounting to $828,451,000 for 2003, 2004, and 2005.

Capital Ratios

SoCalGas' capital ratios as of December 31, 2002, are shown below as recorded and as adjusted to give pro forma effect to the projected issuance of $715,000,000 Debt Securities requested in this proceeding, the issuance of the $217,000,000 under D.96-09-036, the retirement of $570,000,000 first mortgage bonds[4], payment of $12,762,000 call premiums in refinancing first mortgage bonds, and a projected change in retained earnings of $35,305,000:

($000)

	Recorded		Adjustments	Proforma	
Debt:					
Long-term debt	803,924	37.5%	349,238	1,153,162	45.6%
Short-term debt	-	0.0%	-	-	0.0%
Total	803,924	37.5%		1,153,162	45.6%
Preferred stock equity	101,591	4.7%	-	101,591	4.0%
Common stock equity	1,237,640	57.8%	35,305	1,272,945	50.4%
Subtotal	1,339,231	62.5%		1,374,536	54.4%
Total Capitalization	2,143,155	100.0%	384,543	2,527,698	100.0%

SoCalGas' authorized capital structure as shown in D. 96-11-064 dated November 26, 1996, consists of 45.6% debt, 6.4% preferred stock, and 48% common equity.

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.

[4] SoCalGas has $217 million available under D.96-09-036.

Use of Proceeds

SoCalGas generally intends to apply the net proceeds from the proposed debt capital financings to, or to reimburse its treasury for monies expended or to be expended for: (i) the expansion and betterment of utility plant and (ii) the discharge of its indebtedness or retirement of preferred stock at maturity and through sinking fund payments, redemption, prepayment (including premiums, if any, required in connection with redemption or prepayment), repurchase or otherwise. Of the authorization requested in this Application, not less than $500 million will be applied to the uses identified in (ii)[5].

Pub. Util. Code § 817(d) allows a public utility to issue stock or evidences of indebtedness payable at period of more than 12 months for the discharge or lawful refunding of its obligations.

Pub. Util. 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 been paid to the Commission.

Pursuant to Pub. Util. Code § 818, we will approve SoCalGas' proposed debt issue, the proceeds of which are to be used to retire existing long-term debt securities and for capital expenditures.

Pursuant to Pub. Util. Code § 851, we will allow SoCalGas to encumber its property whenever such encumbrance serves to secure the debt authorized herein.

Izetta C.R. Jackson is the assigned Examiner in this proceeding.

---

[5] SoCalGas confirmed by letter dated April 18, 2003 that $217 million of the requested authority in the Application is projected for the expansion and betterment of utility plant.

In Resolution (Res.) ALJ 176-3110 dated April 3, 2003, 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 176-3110.

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

Findings of Fact

1. SoCalGas, a California corporation, is a public utility subject to the jurisdiction of this Commission.

2. SoCalGas needs external funds for the purposes set forth in the Application.

3. The authorized issue of Debt Securities is for proper purposes and is not adverse to the public interest.

4. Authorizing SoCalGas to determine the precise amount and timing of each debt issue, the market in and method by which each debt issue is effected, price, interest rate (which may be fixed, adjustable, variable or set by auction or remarketing procedures), and other material terms and provisions of each debt issue and of any Debt Securities related thereto in the manner and subject to the limitations set forth in the Application would not be adverse to the public interest.

5. Authorizing SoCalGas to encumber utility assets in the event that such encumbrance will be required to secure the Debt Securities is for proper purposes and is not adverse to the public interest.

6. The Commission does not by this decision determine that the SoCalGas' construction budget, cash requirements forecast, and capital ratios presented herein are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case proceedings.

7. The use of credit enhancements, interest rate caps, collars and swaps in appropriate circumstances is not adverse to the public interest. This may provide utility the means to better manage its cost of capital.

8. Limiting SoCalGas' swaps in connection with this decision to those involving counterparties having credit ratings equal to or better than SoCalGas' will help keep counterparty risk within acceptable bounds.

9. The reasonableness of any resulting interest rate and cost of money arising from debt capital is normally subject to review in cost of capital or general rate case proceedings.

10. Notice of the filing of the Application appeared on the Commission's Daily Calendar of March 28, 2003. There is no known opposition to this Application, and the authority requested should be granted.

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. Pub. Util. Code § 817(d) provides that debt issues may be used for the discharge or lawful refunding of obligations.

4. The proposed Debt Securities, including deferrable interest securities, are for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. The proceeds may not be charged to operating expenses or income.

5. This authorization is not a finding of the value of SoCalGas' stock or property, nor does it indicate the amounts to be included in ratemaking procedures.

6. Res. F-616 allows exemption from the Competitive Bidding Rule for: (1) debt issues in excess of $200 million, (2) variable rate debt, structured transactions, bank borrowings, and other securities privately placed with specific lenders; and permits the use of telephonic competitive bidding.

7. SoCalGas should pay the fee determined in accordance with Pub. Util. Code § 1904(b).

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

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Southern California Gas Company (SoCalGas), upon terms and conditions substantially consistent with those set forth or contemplated in Application 03-03-042 (Application), is authorized to:

a. Obtain long-term debt capital in an aggregate principal amount not to exceed $715,000,000 through the issuance and sale (including, by exchange for SoCalGas' outstanding debt or equity securities) of its First Mortgage Bonds, debentures, promissory notes or other evidences of its indebtedness (including, without limitation, overseas indebtedness and foreign securities) and the incurrence of loans (domestic or foreign) or borrowings (collectively referred to as "Debt Securities") in one or more financings in domestic or foreign capital markets, the proceeds of which will be used for the purposes specified in the Application.

b. Issue Debt Securities denominated in United States Dollars or other currencies.

c. Execute and deliver any or all related documents required for completion of the Debt Securities, and encumber its assets in connection with the debt issues.

d. Determine the precise amount and timing of each debt financing, the market in and method by which each is issued, the principal amounts and maturities, the terms and provisions, price and interest rate (which may be fixed, adjustable, variable or set by auction, remarketing, or other rate setting procedures) of the borrowings and of any securities related thereto or issuable in connection therewith in the manner set forth in the Application.

e. The above authorization is in addition to the authority granted in Decision (D.) 96-09-036, of which $217,000,000 of debt capital and $100,000,000 of preferred equity capital remains available for issuance.

2. SoCalGas may enter into one or more interest rate swaps, caps, collars and / or currency exchange contracts, provided that the interest rate swap contracts with respect to debt financings only if, after giving effect thereto, the aggregate notional amount[6] covered by interest rate swap contracts with respect to debt financings does not exceed 30% of SoCalGas' total debt then outstanding.

3. SoCalGas shall enter into interest rate swap contracts only when it is expected that such arrangements will provide an overall cost of money lower than that available through the issuance of alternate Debt Securities.

4. SoCalGas shall limit its use of interest rate swap and other derivative financial instruments issued in connection with this decision to those involving counterparties having credit ratings equal to or better than SoCalGas'.

5. SoCalGas shall separately report all interest income and expenses arising from interest rate swap contracts in all monthly and annual financial reports to the Commission.

6. If SoCalGas elects to terminate a swap contract before the original maturity or the other party terminates the agreement, all costs associated with the termination should be subject to review in SoCalGas' next cost of capital proceeding.

[6] Equal to the debt's stated, par, or book value as opposed to its actual or market value.

7. SoCalGas shall maintain, and within thirty days from request provide the Audit and Compliance Branch any or all of the following:

a. The price, interest rate and other terms pertaining to its issuance of Debt Securities.

b. Copies of the executed agreements and all associated documentation.

c. If SoCalGas enters into contractual agreements to induce third parties to provide credit enhancements or interest rate protections/conversion in conjunction with the issue and sale of Debt Securities, a detailed listing of the costs of the credit enhancements and a report showing why SoCalGas believes the enhancements were advantageous to SoCalGas and its ratepayers.

8. Of the $715,000,000 authorized amount of long-term debt capital, not less than $500,000,000 shall be used for no other purpose than for retiring or refunding long-term debt securities previously issued and upon which SoCalGas has paid the fees prescribed by Pub. Util. Code § 1904(b).

9. SoCalGas' debt issues with principal amounts greater than $200 million, variable rate debt securities, negotiated financing transactions, debt enhancements such as interest rate swaps, caps, collars, and/or currency exchange contracts are exempt from the requirements of the Commission's Competitive Bidding Rule. All other issues of fixed-rate bonds and debentures (other than tax-exempt securities) over $20 million but not greater than $200 million are subject to the Competitive Bidding Rule.

10. Consistent with the modifications to the Competitive Bidding Rule set forth in Resolution No. F-616, SoCalgas is authorized to:

a. Telephonically invite the submission of bids and receive bids by telephone in lieu of newspaper publication for bids and the submission and opening of sealed written bids;

b. Accelerate, postpone or cancel the scheduled date and time for the receipt of bids or vary the terms and provisions of the securities submitted for bid;

c. If appropriate, reject all bids and telephonically request resubmission of bids for securities with the same terms and provisions; and

d. Eliminate the one-day notification requirement to solicit bids.

11. On or before the 25th day of each month, SoCalGas shall file the reports required by General Order No. Series 24-B.

12. The authority granted by this order shall become effective when SoCalGas pays $113,500[7] as required by Pub. Util. Code § 1904(b).

13. The Application is granted as set forth above.

[7] The amount subject to the fee is $215,000,000 ($715,000,000 less $500,000,000 proceeds to be used to refinance long-term debt). The fee is determined as follows: ($2 x (1,000,000/1,000)) + ($1 x 9,000,000/1,000)) + ($0.50 x (205,000,000/1,000)) = $113,500.

14. Application 03-03-042 is closed.

This order is effective today.

Dated July 10, 2003, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORRETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners