Decision 08-07-029 July 31, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & ELECTRIC COMPANY for Authorization to: (1) To 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 not to exceed $1.1 billion of debt capital, in addition to previously-authorized amounts; (2) To issue certain tax-exempt Debt Securities in order to guarantee the obligations of others; (3) To include certain features in SDG&E Debt Securities or to enter into certain derivative transactions related to underlying debt in order to improve the terms and conditions of SDG&E's debt portfolio and with the goal of lowering SDG&E's cost of money for the benefit of ratepayers; (4) To hedge, when appropriate, planned issuances of Debt Securities; and (5) To obtain certain exemptions from the Commission's competitive-bidding rule; and (6) Take all other necessary, related actions. (U 902 M)	Application 08-05-005 (Filed May 1, 2008)

DECISION AUTHORIZING SAN DIEGO GAS & ELECTRIC COMPANY TO ISSUE UP TO $1.1 BILLION OF NEW LONG-TERM DEBT

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DECISION AUTHORIZING SAN DIEGO GAS & ELECTRIC COMPANY TO ISSUE UP TO $1.1 BILLION OF NEW LONG-TERM DEBT

1. Summary

This decision grants San Diego Gas & Electric Company (SDG&E) authority to issue up to $1.1 billion 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) tax-exempt debt, (h) variable-rate debt, (i) "fall-away" mortgage bonds initially secured and subsequently convertible into unsecured debt, and (j) subordinated debt. As part of this authority SDG&E may encumber utility property, including its accounts receivable, 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 SDG&E to report all Debt Securities information required by General Order (GO) 24-B to the Commission on a quarterly basis.

2. Request

SDG&E seeks authorization to issue $1.1 billion of Debt Securities, in addition to previously-authorized amounts, until the aggregate principal amount authorized has been fully utilized. SDG&E 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.

SDG&E also seeks authorization to utilize its accounts receivable to secure Debt Securities and to use hedges to manage interest rate risk. Finally, SDG&E seeks exemptions from the Commission's Competitive Bidding Rule.

3. Discussion

The principal amount, form and terms and conditions of each series of Debt Securities will be determined by SDG&E's 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 (1) year and one hundred (100) years. Medium-term notes are expected to have a maturity of between nine (9) and forty (40) years.

The types of Debt Securities that SDG&E may issue are similar to those authorized in Decision (D.) 06-05-015. The Debt Securities detailed in SDG&E's 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) tax-exempt debt, (h) variable-rate debt, (i) "fall-away mortgage bonds (bonds that are initially secured and subsequently convertible into unsecured debt), and (j) subordinated debt.

SDG&E used a long-term forecast covering the four year period 2008 through 2011 to determine its future financing needs. That long-term forecast anticipates a need for $3.4 billion of additional monies to fund capital improvements of which approximately $1.8 billion of that need would be satisfied from internal cash flow and the remaining $1.6 billion for external debt sources, both from previously authorized but unissued long-term debt and the $1.1 billion being requested in this proceeding. Substantial infrastructure investments in the near-term include projects such as its Smart Metering Program at a total capital cost of approximately $500 million, replacement of SONGS Steam Generators with approximately $130 million of that capital outlay occurring between 2008 and 2010, and transmission investments not yet approved by the Commission.

The proceeds from the issuance and sale of the Debt Securities being authorized in this proceeding will be used for construction expenditures and acquisition of property, to reimburse SDG&E for money it has expended for those purposes, and discharge of its indebtedness or preferred stock retired or to be retired at maturity and through sinking fund payments, redemption, prepayment, and repurchases. In addition, SDG&E seeks to issue $413 million in new Series 2008 bonds in exchange for a correlating series of 2004 and 2006 bonds; upon such exchange, the prior 2004 and 2006 series bonds would be cancelled.

The authorization requested in this application is in addition to the authority previously granted in Commission D.06-05-015, D.04-01-009, and D.93-09-069.

SDG&E's request to issue Debt Securities is subject to §§ 816 *et seq*. of the Public Utilities Code.[1] 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.

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

3.1. Issuance of Debt Securities

SDG&E has substantiated that its $1.1 billion Debt Securities is necessary to satisfy its forecasted 2008 -2011 needs for financing capital expenditures, acquiring property, and retiring or refunding 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 SDG&E authority under § 816 *et seq*. to issue up to $1.1 billion of long-term debt for the aforementioned purposes, as detailed in the application.

Consistent with § 824, SDG&E 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 the purposes authorized by today's Decision.

3.2. Encumbrance of Utility Property

SDG&E 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 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 previous Commission decisions, we will authorize SDG&E to mortgage and encumber its utility property, including its accounts receivables, to improve the terms and conditions of the Debt Securities and to lower SDG&E's overall cost of money for the benefit of ratepayers.[2]

3.3. Debt Enhancements

SDG&E seeks authority to include certain debt enhancements to improve the terms and conditions of SDG&E's Debt Securities and to lower the overall cost of money for the benefit of the ratepayers. These debt enhancements, detailed in its application, consists 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 SDG&E authority to use each of these debt enhancements, most recently by D.06-05-015. We again authorize SDG&E to use these previously approved forms of credit enhancements to lower the overall cost of money for the benefit of the ratepayers.

3.4. Hedges

SDG&E 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 to day, price later. Its price today, fund later hedging strategy allows SDG&E 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 SDG&E to fund immediately and price the

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

securities after interest rates have declined. Hedges under this strategy include long hedges, Treasury options and interest rate swaps.

These hedging strategies of SDG&E are the same hedging strategies and techniques approved by the Commission in D.06-05-015. Consistent with D.06-05-015, SDG&E 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 preferred and preference stock granted in Ordering Paragraph 1 of D.06-05-015, SDG&E presumes and seeks Commission confirmation that the authority to hedge in that decision remains in force as long as any unused preferred or preference stock issuance authority exists under that decision. The hedging terms authorized in D.06-05-015 are consistent with this decision and remain applicable to the unissued portion of the preferred and preference stock authorized in that decision. We also confirm that the unused authority to effect financing involving preferred stock, preference stock and hybrid capital without capital bids granted in Ordering Paragraph 4 of D.06-05-015 remains in force.

3.5. 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, is to reduce the cost of debt issued by utilities. The Resolution also provides for utilities to seek an exemption from the Competitive Bidding Rule for debt issues in excess of $200 million. An exemption request will only be granted upon a compelling showing by a utility that because of the size of the issues, an exemption is warranted.

3.5.1. 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: (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 electronic means such as e-mail, are consistent with the Resolution F-616 authorization of telephonic bidding.

3.5.2. 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 from the Competitive Bidding Rule on issues in excess of $200 million to meet its financing requirements on more favorable terms. SDG&E seeks this exemption on the basis that:

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.

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.

3.5.3. Securities Not Applicable to Competitive Bidding

SDG&E 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 SDG&E seeks an exemption from the Competitive Bidding Rule 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, special-purpose entity transactions, and financings involving preferred or preference stock and hybrid capital.

3.5.4. 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 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.

3.5.5. Conclusion

SDG&E's request for the previously described exemptions from, and modifications to, the Competitive Bidding Rule is granted on the basis that the Commission has routinely granted SDG&E and other utilities similar exemptions and modifications[3] 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.

4. Reporting Requirement

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

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

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.[4] SDG&E should be treated no differently. SDG&E may report quarterly to the Commission the information required by GO 24-B.

5. 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) and 1904.1. A fee is not applicable on any such issues 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.)

SDG&E expects to use the full $1.1 billion of the proposed financing proceeds to reimburse its treasury for monies expended, or to be expended, for the discharge of its indebtedness or preferred stock retired, or to be retired, at maturity and through sinking fund payments, redemption, prepayment, and repurchases for construction expenditures and acquisition of property, or to reimburse SDG&E for money it has expanded for those purposes.

However, it also proposes to retire $413 million of existing long-term debt. Debt Securities used to retire existing long-term debt is not subject to a fee,

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

pursuant to § 1904.1. Therefore, SDG&E should pay a fee on only $687 million of its new $1.1 billion Debt Securities ($1.1 billion less $413 million to be used to retire existing long-term debt). If SDG&E actually uses any of the $413 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 $413 million of long-term debt earmarked to replace existing long-term debt.

SDG&E shall remit the required $349.5 thousand fee to the Commission's Fiscal Office.[5] The authority granted by this order shall not become effective until SDG&E remits the $349.5 thousand fee to the Commission's Fiscal Office.

6. Financial Information

We place SDG&E on notice that the reasonableness of any resulting interest rate and cost of money arising from debt capital are normally subject to review in the appropriate cost of capital or general rate case proceeding. Capital structures are normally subject to review in cost of capital or 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. We will not make a finding in this decision on the reasonableness of SDG&E's 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

[5] The fee is assessed on $ 687,000,000 of authorized Debt as follows: ($2 times ($1,000,000/$1,000) plus ($1 times $9,000,000/$1,000 plus $0.5 times $677,000,000/$1,000 equals $349,500.

the authority to undertake construction or the right to recover the cost of capital in rates.

7. 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.[6] 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 SDG&E 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 SDG&E receiving a certificate of public convenience and necessity or permit to construct. To the extent capital expenditures are financed with the proceeds of the long-term debt issued pursuant to this decision, CEQA review should occur as needed through the regulatory processes applicable to each capital project.

8. Category and Need for Hearings

SDG&E requested that this matter be categorized as ratesetting. By Resolution ALJ 176-3213, dated May 15, 2008, the Commission preliminarily determined that this was a ratesetting proceeding and that a hearing would not be necessary.

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[6] Pub. Resources Code Section 21080.

Notice of the application appeared in the Commission's Daily Calendar of May 6, 2008. There was no protest to the application. Based on the record, we affirm that this is a ratesetting proceeding, and that a hearing is not necessary.

9. Waiver of Comment Period

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

10. Assignment of Proceeding

Timothy Alan Simon is the assigned Commissioner and Michael J. Galvin is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. SDG&E seeks authority to issue $1.1 billion of Debt Securities.
2. There were no protests to this application.
3. SDG&E has approximately $760 million of authorized but unissued Debt Securities.
4. SDG&E intends to apply $413 million of the requested debt authority to retire outstanding long-term debt.
5. 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.
6. SDG&E has a reasonable need to issue $1.1 billion of long-term debt during 2008 – 2011 to finance capital expenditures and retire its debt.
7. SDG&E seeks authority under § 851 to issue First and Refunding Mortgage Bonds and to use its accounts receivable to secure its debt.
8. SDG&E seeks authority to issue additional types of Debt Securities using a wide variety of means.

9. SDG&E seeks authority to manage interest rate risk with hedges.

10. Resolution F-616 requires utilities to issue debt using competitive bids. The Resolution also provides for exemptions from the Competitive Bidding Rule for debt issues in excess of $200 million and debt that must be obtained on a negotiated basis such as variable-rate debt.

11. SDG&E represents that granting its requested exemptions from, and modifications to the Competitive Bidding Rule will enable SDG&E to obtain debt in a manner that is advantageous to SDG&E and its ratepayers.

12. The Commission does not by this decision determine that the SDG&E's 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.

13. 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.

14. 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.

15. A.08-05-005 does not propose, and today's Decision does not authorize, any specific new construction or changes in use of existing assets and facilities.

16. Notice of A.07-05-018 appeared in the Commission's Daily Calendar. There were no protests or other responses to A.08-05-005.

17. In Resolution ALJ 176-3213, the Commission preliminarily determined that this proceeding should be categorized as ratesetting and that a hearing would not be necessary.

18. There was no filed protest to this application.

Conclusions of Law

1. This is a ratesetting proceeding.

2. There is no need for hearings.

3. The application should be granted as requested.

4. SDG&E's exemption requests from the Competitive Bidding rule are reasonable and should be granted.

5. Public review and comment on the decision should be waived, pursuant to § 311(g)(2) of the Pub. Util. Code.

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

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

8. The following Order should be effective immediately so that SDG&E may issue as soon as possible the debt authorized herein.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E) is authorized to issue $1.1 billion of new long-term debt as contemplated in Application 08-05-005 and as described within this decision.

2. SDG&E may encumber utility property, including accounts receivables, to secure Debt Securities authorized by this Decision and may use hedges to manage interest rate risk.

3. SDG&E 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 draw downs as enumerated in the body of this Decision. These features are also authorized for the unused authority granted in Decisions (D.) 06-05-015, D.04-01-009, and D.93-09-069.

4. SDG&E 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.

5. Consistent with the Competitive Bidding Rule, SDG&E shall offer through competitive bidding fixed rate Debt Securities in the form of first and refunding mortgage bonds and intermediate (9 to 40 years) and long-term (for purposes of this Ordering Paragraph only meaning more than 40 years) note debentures of $200 million or less in principal amount that are sold publicly in the domestic market.

6. SDG&E is exempted from the Competitive Bidding Rule on issues in excess of $200 million to meet its financing requirements on more favorable terms.

7. SDG&E 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, Debt Securities issued in conjunction with tax-exempt financings, subordinated debt, special-purpose entity transactions, and financings involving preferred or preference stock and hybrid capital.

8. SDG&E is exempted from the Competitive Bidding one-day notice requirement.

9. SDG&E shall report on a quarterly basis all the information required by General Order 24-B with respect to debt issued pursuant to this Order.

10. SDG&E shall pay a fee on only $687 million of its new $1.1 billion Debt Securities ($1.1 billion less $413 million earmarked to retire existing long-term debt). If SDG&E actually uses any of the $413 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 $413 million of long-term debt earmarked to replace existing long-term debt.

11. SDG&E shall remit to the Commission's Fiscal Office a check for $ 349.5 thousand as required by Section 1904(b) of the Public Utilities Code. The decision number of this Decision shall appear on the face of the check.

12. The authority granted by this Order shall not become effective until SDG&E remits $349.5 thousand to the Commission's Fiscal Office.

13. SDG&E shall comply with all applicable environmental laws and regulations when planning and implementing any capital expenditure programs that are financed, in whole or in part, with the proceeds from the debt authorized by this Order.

14. Application 08-05-005 is closed.

This order is effective today.

Dated July 31, 2008, at San Francisco, California.

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