

Decision 06-05-015 May 11, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & ELECTRIC COMPANY for Authorization to: (1) Obtain Long-Term Debt Capital Not to Exceed the Equivalent of U.S. \$800,000,000; (2) Guarantee the Obligations of Others with Respect to the Issuance of Certain Tax-exempt Securities; (3) Include Certain Features in Debt Securities or Enter into Certain Derivative Transactions to Lower Cost of Money; (4) Obtain an Exemption From the Competitive Bidding Rule; (5) Enter Into Interest Rate Swaps, Caps, Collars and/or Currency Exchange Contracts; (6) Issue and Sell Not More than U.S. \$200,000,000 Par or Stated Value of Preferred or Preference Stock; and (7) Take All Other Necessary, Related Actions.

(U 904-M)

Application 06-02-017
(Filed February 14, 2006)

**OPINION GRANTING AUTHORITY
TO ISSUE DEBT AND PREFERRED STOCK SECURITIES**

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**OPINION GRANTING AUTHORITY
TO ISSUE DEBT AND PREFERRED STOCK SECURITIES**

I. Summary

This decision grants San Diego Gas & Electric Company (SDG&E) the authority requested in Application (A.) 06-02-017. The proceeding is closed.

On February 14, 2006, SDG&E filed A.06-02-017 for authority to issue various debt securities not to exceed \$800,000,000 in aggregate principal and \$200,000,000 Par or Stated Value of Preferred or Preference Stock. SDG&E requests authority, pursuant to Articles 5 and 6 of Chapter 4, Part 1, Division 1 of the California Public Utilities Code and Rules 33 and 34 of the Commission's Rules of Practice and Procedure for the following:

To issue first mortgage bonds, debentures, overseas indebtedness, foreign securities, medium-term notes, accounts receivable financing, and to enter into long-term loans (collectively, Debt Securities), in an aggregate principal amount not to exceed \$800,000,000 of debt capital, in addition to previously-authorized amounts. SDG&E proposes that its management or board of directors will determine the principal amount and the terms and conditions of each issue of Debt Securities according to market conditions at the time of sale;

To issue certain tax-exempt Debt Securities in order to guarantee the obligations of others;

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;

To hedge, when appropriate, planned issuances of Debt Securities, Preferred and Preference Stock;

To issue and sell not more than U.S. \$200,000,000 stated value of preferred or preference stock; and

To obtain certain exemptions from the Commission's competitive-bidding rule.

Applicant also requests that the additional features associated with the Debt Securities, Preferred and Preference Stock requested in this Application be similarly authorized for the unused authority previously granted in Commission Decisions (D.) 04-01-009 and D.93-09-069.

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

II. Background

SDG&E is an electric and gas corporation organized and existing under the laws of the State of California, and is primarily engaged in the business of providing public utility electric and gas service throughout San Diego County and public utility electric service in a portion of Orange County. It offers as justification that it will experience growth in the near-term and needs to serve an increasing load, improve reliability and reduce congestion costs, connect new generation, increase operational flexibility, and upgrade aging infrastructure. Additionally, SDG&E states that it plans significant capital expenditures for the Palomar Energy Center power plant in 2006 at a cost of approximately \$500,000,000 and the Otay Mesa transmission project at approximately \$200,000,000. Other projects in the foreseeable future include Advanced Metering Infrastructure (AMI) investments, a new major transmission line – the “Sunrise Powerlink” – that will improve the region's electrical transmission grid reliability and provide access to available and potential electricity supplies.

By Ruling dated March 14, 2006, the assigned Administrative Law Judge directed SDG&E to supplement its application and subsequently on March 30, 2006, SDG&E filed and served a supplement including a declaration

by its proffered witness Hayes stating that the supplemental information is true and correct. We receive into evidence the uncontested testimony of witnesses Hayes and Lewis as served with the application and receive the supplement as further testimony by Hayes. Notice of the filing appeared on the Commission's Daily Calendar of February 22, 2006. There are no protests.

III. Discussion

SDG&E seeks authorization to obtain debt capital in an aggregate principal amount not to exceed \$800,000,000 through the issuance and sale of Debt Securities and to issue Preferred or Preference Stock of up to \$200,000,000 stated value. This request does not affect SDG&E's residual authority to issue securities pursuant to D.04-01-009 and D.93-09-069.

IV. Types of Debt Securities

SDG&E seeks authority to issue: (a) secured debt, (b) unsecured debt or debentures, (c) debt in foreign capital markets in U.S. or other currency denomination and proceeds in U.S. or other currency possibly with currency swaps, (d) medium-term notes with maturity of generally 9 months to 15 years, but authority for up to 40 years, (e) direct long-term loans greater than one year pursuant to lines of credit with various institutions, (f) accounts receivable financing by pledging, selling, or assigning the accounts receivable of the company, (g) tax exempt debt, (h) variable rate debt of various possible forms, (i) "fall-away" mortgage bonds that are initially secured debt and later convertible into unsecured debt, and (j) subordinated debt, junior in its right of payment to senior secured and unsecured indebtedness. (*See Application Section IV, pp. 6 - 10.*)

The Commission has previously allowed SDG&E to issue all of the above types of debt except for the last two, "fall-away" mortgage bonds and

subordinated debt. (*See Supplement, pp. 2 – 7.*) We will again authorize SDG&E the discretion to use these previously approved forms of debt without further discussion, except to further examine accounts receivable financing, as discussed below. We also discuss the two new forms of debt instruments in more detail below.

A. Fall-away Mortgage Bonds

SDG&E's supplemental testimony describes "fall-away" mortgage bonds (FMB):

The purpose of "fall away" FMBs is to ultimately replace an existing first mortgage indenture with an unsecured note financing program or a modernized first mortgage indenture. Generally, "fall away" bonds are used in the following fashion: new, unsecured senior notes are issued under a senior note indenture and are initially secured by mirror FMBs issued under the first mortgage indenture and delivered to the senior note trustee. These mirror FMBs will have the same interest rate, maturity date, and other terms of the senior notes and will rank equally with all other outstanding FMBs. The senior note indenture provides that on the earlier of (i) the date that all FMBs (other than the mirror bonds) have been retired or (ii) the date upon which some other condition has been met (e.g., a ratings threshold has been crossed, certain financial ratios have been exceeded, a certain percentage of outstanding FMBs have been delivered to the senior note trustee, etc.) the mirror bonds will be canceled and cease to secure the senior notes (i.e., they "fall away") and the senior notes become unsecured general obligations of the company.

The use of "fall-away" bonds offers certain benefits to a utility issuer like SDG&E. First, it allows the firm to launch an unsecured note program with a rating comparable to that of its first mortgage bonds. Second, once the company's first mortgage debt has fallen away and the new senior notes are no longer subordinate to the former FMBs, additional senior notes can be later sold at interest rates essentially equivalent to those which could have been obtainable for secured debt. Finally, the issuance of senior notes

under a streamlined, twenty-first century indenture eliminates the administrative costs and burdens associated with a vintage-1930 first mortgage indenture. (Supplement, pp. 5 - 6.)

SDG&E further points out that the Commission authorized Pacific Gas and Electric Company (PG&E) to issue “fall-away” mortgage bonds in D.04-10-037.¹ We find that SDG&E has the burden of proof to justify its underlying cost of debt whenever the Commission adopts a reasonable cost of capital. Further, we expect SDG&E to act prudently at all times and use its best professional judgment and best available information at the time it enters into financing transactions. Therefore, we will allow SDG&E the discretion to include this new form of debt and we will grant SDG&E the requested authority for this new type of debt instrument.

B. Subordinated Debt

SDG&E’s supplemental testimony describes subordinated debt:

Subordinated debt is a key component of trust-preferred securities, a conventional security that has been recognized by the Commission for over ten years. A typical trust-preferred structure works in the following manner: a company seeking to raise cash forms a wholly owned trust that issues preferred stock. The parent company in turn simultaneously issues deeply subordinated debentures to the trust. The debentures have “back-to-back” terms with the trust’s preferred securities, meaning that the interest, redemption and other payments on the subordinated debt correspond to those on the preferred. In addition, the parent company may guarantee the trust’s securities.

The typical benefit to an issuer like SDG&E of a trust-preferred security is the tax treatment: on a consolidated basis, the dividends paid to investors are tax-deductible due to the presence of

¹ D.04-10-037 dated October 28, 2004, and subsequently modified by D.05-04-023 dated April 7, 2005, in A.04-05-041, filed May 27, 2004.

subordinated debt in the structure. This lower preferred cost is a direct benefit to ratepayers.

Today, subordinated debt may be useful in more structures than just trust-preferred securities. Since early 2005, the Company's investment bankers have indicated that subordinated debt could play a role in any number of new, so-called "hybrid" securities, The benefits to SDG&E of such new securities are twofold. First, the new securities can receive more rating-agency equity credit than is currently granted to traditional trust-preferred or preferred stock. The term "equity credit" refers to how rating agencies treat securities that are neither debt nor equity when running their calculations. Moody's Investors Service describes the process like so:

The hybrid's characteristics are...scored in terms of their strength relative to common equity...[o]nce these scores have been assigned, the hybrid is compared to hybrids already on the debt-equity continuum and placed in a basket. There is a specific percentage of debt and equity associated with each basket, which is used to adjust full sets of financial statements. The hybrid is then considered within the context of each issuer's overall credit fundamentals and its impact on the rating is left to the relevant rating committee. (Quote within the testimony.)

The second benefit is that most of these new securities, like trust preferreds, feature tax-deductible periodic payments, thus reducing financing costs for ratepayers. (Supplement, pp. 6 - 7.)

SDG&E further points out that the Commission authorized subordinated debt for PG&E (D.95-09-023), Southern California Gas (SoCalGas) (D.96-09-036), and Southern California Edison (SCE) (D.05-08-008).

As already noted, SDG&E must justify its capital structure and costs in the appropriate proceedings. We will grant SDG&E authority for this additional type of debt instrument.

C. Accounts Receivable Financing

We want to examine more closely SDG&E's request for authority to secure its debt with its accounts receivable. SDG&E has previous authority which it has not exercised. (D.04-01-009.) There are two divergent bodies of Commission precedent relevant to SDG&E's current request. The first consists of decisions that have allowed several utilities, including SDG&E in its most recent financing decision, to use their accounts receivable as collateral to secure debt. In general, these decisions placed few, if any, restrictions or conditions on the use of accounts receivable as collateral.² The second set is confined to PG&E. These decisions were issued shortly before and during PG&E's recent bankruptcy: they authorized PG&E to pledge its gas customer accounts receivable for the sole purpose of procuring gas supplies for PG&E's core customers, including flowing gas and storage gas.³ In D.04-10-037, the Commission found:

It was fortunate that PG&E's gas accounts receivable were available to be used as collateral for the procurement of gas for PG&E's customers during PG&E's bankruptcy. If PG&E's gas accounts receivable had already been pledged as collateral for other purposes, it is possible that PG&E would not have been able to procure adequate supplies of gas for its customers,⁴ thereby causing gas shortages with potentially disastrous consequences for California.⁵

² See, e.g., D.04-01-009 (San Diego Gas & Electric Company), D.03-11-018 (Southern California Edison Company), and D.01-04-031 (Mountain Utilities).

³ See D.04-02-056, D.03-02-061, D.02-03-025, D.01-06-074, D.01-02-050, and D.01-01-062.

⁴ PG&E asserted at the time that its ability to procure adequate supplies of gas was dependent on its use of accounts receivable as collateral for gas purchases. (See, e.g., D.04-02-056, Finding of Fact (FOF) 2; D.03-02-061, pp. 3, 4, and FOF 2; and D.01-01-062, FOFs 6, 7, 8, & 10.)

⁵ D.01-01-062, FOF 9.

We conclude that it is in the public interest to ensure that amounts paid by PG&E's customers will always be available to serve as collateral for the procurement of gas and electricity. Therefore, we will limit PG&E's authority to pledge its gas customer accounts receivable to the sole purpose of procuring gas supplies for PG&E's customers, including flowing gas and storage gas. Similarly, we will limit PG&E's authority to pledge its electric accounts receivable to the sole purpose of procuring electric power for PG&E's customers, including any fuels necessary for PG&E's retained generation plants. (mimeo., pp. 19 - 21.)

The Commission subsequently revoked this restriction⁶ in D.05-04-023, where we found:

We do so with the expectation that the modification will enable PG&E to issue debt at the lowest possible cost for its ratepayers. We also agree with PG&E that because other utilities have been authorized to use their accounts receivable to secure debt, PG&E should be granted the same authority. (Mimeo., p. 7.)

Restrictions on the use of accounts receivables could provide a significant safeguard for SDG&E's ratepayers – ensuring the availability of the receivables to finance gas and electricity purchases in a crisis – and, as SDG&E indicated, it has not previously exercised its broader authority. We therefore strongly encourage SDG&E to be very cautious in the use of accounts receivable financing – especially in light of the wide range of other tools we authorize and noting that it has not used its prior authority to date. But our current policy is to allow the utilities discretion on when, or if, to use accounts receivable for general credit enhancement purposes and we will therefore continue to allow SDG&E the same discretion.

⁶ On November 29, 2004, PG&E filed a petition to modify D.04-10-037.

V. Credit Enhancements

SDG&E requests authority to use various forms of debt enhancements: (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 – including letters of credit, and other features, (i) capital replacement, (j) interest deferral, (k) special-purpose entity transactions, and delayed drawdown. (*See* Application Section V, pp. 10 - 13.)

The Commission has previously allowed SDG&E authority to use all but (e) “swaptions,” (i) capital replacement, and (j) interest deferral. (*See* Supplement, pp. 8 - 16.) We will again authorize SDG&E the discretion to use the previously approved forms of credit enhancement without further discussion.

A. Swaptions

SDG&E’s supplemental testimony describes “swaptions”:

Swaption contracts grant the right to enter a swap agreement (or to exit a swap) under specified terms and conditions. A swaption put, the instrument most relevant to SDG&E’s needs, gives the buyer the right, but not the obligation, to receive floating payments and to pay a fixed interest rate based on a specified notional amount. Swaptions are an over-the-counter product: the strike price, maturity, and size can be tailored to suit an issuer’s particular needs. Both American- and European-style swaptions are available. Like other types of options, the swaption involves payment of an up-front premium related to the instrument’s strike price and other market variables.

Swaptions provide utility management with an additional, flexible tool for interest-risk hedging. As discussed in A.06-02-017, Section VII, SDG&E can lock in the interest rate on a future borrowing with a forward-starting swap. However, the Company may desire to preserve the opportunity for further interest savings in the event that rates decline. In such a case, SDG&E would allow the swaption to expire, thus foregoing the swap and issuing debt at a rate lower than what the swap would have locked in.

*Cost impact and recovery.*⁷ Ratemaking treatment depends on what ultimately transpires after the swaption's purchase. If the underlying debt is issued as planned and the swaption is exercised, the premium would count as an issuance cost (reduction of proceeds) in SDG&E's embedded-debt calculation. On the other hand, if the underlying debt is issued as planned and the swaption is not exercised, the premium would result in an immediate expense not recoverable as a debt-related expense. Similarly, if the underlying debt is not issued at all, the premium would result in an immediate expense not recoverable as a debt-related expense. (Supplement, p. 10. Emphasis in original.)

SDG&E would be the first utility authorized to use swaptions to hedge interest rate risk. We find that SDG&E has the burden of proof to justify its underlying cost of debt whenever the Commission adopts a reasonable cost of capital. Further, we expect SDG&E to act prudently at all times and use its best professional judgment and best available information at the time it enters into financing transactions. Therefore, we will allow SDG&E the discretion to use this additional tool consistent with obtaining the best possible financial terms and conditions available at the time in the capital markets.

B. Capital Replacement

SDG&E's supplemental testimony describes capital replacement:

Capital replacement refers to an issuer's declaration of intent, or in some cases its covenant, to replace debt securities with new securities that receive similar or better rating-agency equity credit. An example of this feature is found in Southern California Edison's [SCE's] September 2005 prospectus for its Series B Preference Stock:

It is our intention to redeem the shares only from proceeds from the issuance of new capital offerings

⁷ The ruling required SDG&E to indicate the likely method of cost recovery and impact on ratepayers.

whose equity treatment is equal to, or greater than, the shares being redeemed. (Quote within the testimony.)

The Commission in D.05-08-008 authorized SCE to issue preferred “upon terms and conditions substantially consistent with those set forth or contemplated in Application 05-02-018.” In that application SCE stated that: “SCE anticipates that the terms of the preferred stock may include, but will not be limited to: (i) restrictive redemption provisions...” – a broad category into which replacement language falls.

Since 2005, SDG&E’s investment bankers have indicated that explicit capital replacement could play a role in any number of new, so-called “hybrid” securities A primary benefit to SDG&E of such new securities is that they may receive more rating-agency equity credit than does ordinary debt or preferred stock. Rating agency reports make it clear that capital replacement conditions are an important consideration for improved equity credit.

Cost impact and recovery. By itself, a security’s capital-replacement clause does not entail any specific cash outlays or expenses requiring recovery. However, if the specified replacement were to take place, SDG&E would appropriately reflect the substitution in its embedded debt cost calculations. (Supplement, pp. 12 - 13, emphasis in original.)

SDG&E would not be the first utility authorized to use a capital replacement tool whenever it could improve or enhance its credit rating. As with swaptions and all other capital, SDG&E must justify its costs every time the Commission examines the cost of capital. Therefore, we will allow SDG&E the discretion to use this additional tool consistent with obtaining the best possible financial terms and conditions available at the time in the capital markets.

C. Interest Deferral

SDG&E’s supplemental testimony describes interest deferral:

The ability to defer interest on a security is defined by the security’s indenture and will vary from security to security. The indenture may specify certain time periods during which deferral is allowed and may limit certain payments made on other securities. It may require

certain types of payments under specific circumstances during a deferral period.

Since 2005, SDG&E's investment bankers have indicated that interest deferral on subordinated debentures could play a role in any number of new, so-called "hybrid" securities, discussed in greater detail in Question 3, below. Rating agency reports make it clear that interest deferral can lead to improved equity credit.

Cost impact and recovery. The ability to defer a particular security's interest payments will have no cost impact requiring recovery. The applicable ratemaking precedent is that of conventional preferred stock, which carries a fixed, deferrable dividend that is collected regularly in rates regardless of deferral status. (Supplement, pp. 13 - 14, emphasis in original.)

The Commission has previously authorized other California utilities to issue interest-deferrable securities: PG&E (D.95-09-023), SoCalGas (D.96-09-036) and SCE (D.05-08-008). We will grant SDG&E authority to use interest deferral, whenever appropriate as noted with the other new debt instruments credit enhancement tools.

D. Very Long-Lived Securities

In its application SDG&E proposed that it may wish to issue debt instruments with very long lives, up to 100 years. In its supplemental testimony SDG&E clarified that the long-lives in excess of 40 years – more typical of conventional utility long-term debt – are intended to be used with some of the more exotic forms of hybrid financing. SDG&E described hybrid debt as debt possessing many characteristics of equity but is still categorized as debt for compliance with generally accepted accounting principles. SDG&E notes in particular that these hybrids "are appealing financing vehicles, as they receive the same or higher equity credit as preferred stock, but in many cases have a lower cost because their payments are tax-deductible." (Supplement, p. 17.)

We note that in our experience the long-lives of traditional debt, often a mortgage indentured long-term bond, exhibit a life not dissimilar to the service life of many long-term utility plant items, including power plants, transmission facilities and the like. We also note there is no regulatory requirement for such symmetry, or a likely and compelling ratemaking rationale to require such symmetry. For example, we would not want a utility in times of high interest costs to unnecessarily lock in those high rates for the full service life of new plant. We will allow SDG&E the discretion it seeks for long-lived securities consistent with the desirable flexibility previously discussed for SDG&E to prudently manage its cost of capital. The life-span or duration of debt instruments is simply one of the many features that figure into SDG&E's obligation to justify the reasonableness of its capital costs.

VI. Preferred Stock

SDG&E proposes to issue new preferred or preference stock through an offering and sale to the public with either negotiated underwritings or by private placements with institutional or other investors. SDG&E has not yet determined the precise amount and timing of each placement, and the securities' features have not been finally determined. They will be established by SDG&E prior to the offering with due regards for its funding requirements and the prevailing and anticipated market conditions.

SDG&E anticipates that the terms and conditions of such securities may include, but not be limited to, preference, dividends, redemption provisions, capital replacement, and trust structures.

Preference stock. SDG&E's preference stock is junior to its preferred stock and senior to its common equity. Preference stock rights to dividends – and to a redemption payment if the corporation is

dissolved – generally will be subordinated to the rights of the preferred stock, but will rank superior to the claims of common stock.

Dividends. SDG&E proposes to pay preferred and preference dividends at the discretion of its Board of Directors; the dividends can be either cumulative or non-cumulative in nature. New issues may feature dividend rates which are fixed, floating, or set through remarketing or Dutch auction procedures. SDG&E may include a dividend deferral provision that may allow for optional deferral of payments of dividends.

Redemption. Some preferred and preference stocks are perpetual in nature, as is common stock. Others have a specified redemption date on which the issuer must redeem the shares at a stated value. There are preferred and preference stocks that, like debt instruments, feature sinking funds. Finally, some preferred or preference securities can be callable anytime at SDG&E's option, in whole or in part, at a preset price plus accrued and unpaid dividends up to the call date.

Capital Replacement. SDG&E proposes that it may specify that it intends to replace the preferred stock when redeemed with replacement securities having similar or greater equity characteristics.

Special-purpose entity transactions. In some instances it may be advantageous for SDG&E to guarantee the preferred securities of a special-purpose entity. A special-purpose entity would be a subsidiary or other affiliate of the company (including a limited partnership, a limited liability company or a business trust) that would issue preferred securities and loan the proceeds from the issuance to SDG&E in exchange for debt securities featuring terms and conditions specified at the time of issuance. The special-function entity's securities may be guaranteed by SDG&E. SDG&E asserts that it can obtain external capital which qualifies as having preferred characteristics for the credit rating agencies but which the company can treat as debt for tax purposes. The Commission has previously authorized guarantees of preferred securities issued by special-purpose entities in D.94-07-062 (SDG&E) and D.05-08-008 (SCE).

The Commission has previously authorized SDG&E to issue preferred or preference stock and we will approve this request. As already noted, this

approval does not affect the separate determination of the capital structure or cost of capital deemed reasonable for recovery in rates.

VII. Use of Proceeds

SDG&E indicates that it will apply the net proceeds from the proposed debt and preferred 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 preferred stock retired or to be retired at maturity and through sinking fund payments, redemption, prepayment (including premiums, if any, required in connection with redemption or prepayment), repurchase or otherwise.

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

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

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

We will authorize SDG&E's proposed debt securities in the aggregate principal amount of \$800,000,000 and Preferred or Preference Stock in an aggregate amount of \$200,000,000.

VIII. Competitive Bidding Rule

SDG&E seeks exemptions from the Commission's competitive bidding rule consistent with prior exemptions. This has become a routine exemption for

all major utilities – see for example SDG&E’s last decision, D.04-01-009 and PG&E’s D.04-10-037 (mimeo., pp. 26 – 28, and Ordering Paragraph 12).

We grant SDG&E’s request for exemptions from the Competitive Bidding Rule. We do so based on SDG&E’s representation that granting the exemptions will enable SDG&E to obtain debt in a manner advantageous to SDG&E and its ratepayers. This decision makes no finding regarding the reasonableness of the rates, terms, and conditions of debt issued by SDG&E pursuant to the exemptions granted herein.

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

X. California Environmental Quality Act (CEQA)

Under the California Environmental Quality Act (CEQA) and Rule 17.1 of the Commission’s Rules of Practice and Procedure, we must consider the

environmental consequences of projects that are subject to our discretionary approval.⁸ Thus, in deciding whether to approve this application, we must consider if doing so will alter an approved project, result in new projects, change operations, etc., to have an environmental impact.

CEQA guidelines recognize that the timing of the environmental review involves a balancing of competing factors, and that such review should occur as early as feasible in the planning process to enable environmental considerations to influence project design, yet late enough to provide meaningful information for environmental assessment.⁹ We conclude that it is premature to conduct a CEQA review of the projects that may be funded with debt and preferred stock issued pursuant to this Opinion because there is insufficient information to conduct a meaningful environmental assessment at this time.

This Opinion does not authorize any specific capital expenditures or construction projects. SDG&E cannot use any proceeds from the debt and preferred/preference stock issued pursuant to this Opinion to begin construction of capital projects until it has obtained all necessary discretionary approvals from the Commission, including environmental review under CEQA.

Consistent with D.04-10-027 (re PG&E), we find this Opinion granting authority for SDG&E to issue debt or preferred/preference stock is too remote from any specific action by SDG&E to require CEQA review.

XI. Fee

SDG&E is required to pay a fee of \$512,000 on the new authority granted

⁸ Pub. Resources Code Section 21080.

⁹ Code of Regs., Title 14, § 15004.

in this decision. (See Code § 1904(b)¹⁰ re debt, and § 1904.1¹¹ re preferred stock.)

Computation of Fee			
<i>Item</i>	<i>Amount</i>	<i>Rate</i>	<i>Fee</i>
Long-Term Debt	\$1,000,000	\$2.00 per thousand	\$2,000
	9,000,000	\$1.00 per thousand	9,000
	790,000,000	\$0.50 per thousand	395,000
Total	\$800,000,000		
Preferred Stock	\$1,000,000	\$2.00 per thousand	2,000
	9,000,000	\$1.00 per thousand	9,000
	190,000,000	\$0.50 per thousand	95,000
Total	\$200,000,000		
Total Authority and Fee	\$1,000,000,000		\$512,000

XII. Categorization

In Resolution (Res.) ALJ 176-3168 dated March 2, 2006, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were not necessary. There are no protests. A public hearing is not necessary and there is no need to alter the preliminary determinations made in Res. ALJ 176-3168.

¹⁰ § 1904 (b): “For a certificate authorizing an issue of bonds, notes, or other evidences of indebtedness, two dollars (\$2) for each one thousand dollars (\$1,000) of the face value of the authorized issue or fraction thereof up to one million dollars (\$1,000,000), one dollar (\$1) for each one thousand dollars (\$1,000) over one million dollars (\$1,000,000) and up to ten million dollars (\$10,000,000), and fifty cents (\$0.50) for each one thousand dollars (\$1,000) over ten million dollars (\$10,000,000), with a minimum fee in any case of fifty dollars (\$50). ... ”

¹¹ § 1904.1: “The commission shall also charge and collect a fee for a certificate authorizing an issue of stock, which fee shall be computed at the rates set forth in subdivision (b) of Section 1904 and determined by the commission upon the basis of the proposed maximum proceeds. ... ”

XIII. Comments on Draft Decision

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 waived.

XIV. Assignment of Proceeding

Commissioner John A. Bohn and Administrative Law Judge Douglas Long are assigned to this proceeding.

Findings of Fact

1. SDG&E, a California corporation, is a public utility subject to the jurisdiction of this Commission.
2. SDG&E needs external funds for the purposes set forth in the application.
3. The proposed Debt Securities and Preferred or Preference Stock are for proper purposes and not adverse to the public interest.
4. The use of credit enhancements in appropriate circumstances is not adverse to the public interest. These tools may provide SDG&E the means to better manage its cost of capital.
5. Authorizing SDG&E to determine the precise amount and timing of each debt issue, including the section of the appropriate market, specific form of approved debt financing and use of specific approved credit enhancements is not adverse to the public interest.
6. Authorizing SDG&E to encumber utility assets in the event that an encumbrance is required to secure the Debt Securities is for proper purposes and is not adverse to the public interest.
7. 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.

8. SDG&E requests several exemptions from the Competitive Bidding Rule, similar to exemptions in D.04-01-009 and D.93-09-069.

9. Granting the exemptions from the Competitive Bidding Rule will help SDG&E issue debt on terms that are favorable to SDG&E and its ratepayers.

10. Notice of the filing of the Application appeared on the Commission's Daily Calendar of February 22, 2006. 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. This authorization is not a finding of the value of SDG&E's stock or property, nor does it indicate approval of matters subject to review in ratemaking proceedings.

4. It is lawful to allow SDG&E authority to pledge its accounts receivable.

5. Res. F-616 allows exemption from the Competitive Bidding Rule. Certain bidding procedures and deviations from the Competitive Bidding Rule are permitted in Res. F-616.

6. SDG&E's request for the exemptions from the Competitive Bidding Rule is reasonable and should be granted.

7. SDG&E should pay the fee determined in accordance with Pub. Util. Code §§ 1904(b) and 1904.1.

8. The following order should be effective immediately.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, San Diego Gas & Electric Company (SDG&E), may issue debt instruments, use credit enhancement tools and issue Preferred or Preference Stock upon terms and conditions consistent with those set forth or contemplated in Application 06-02-017 and as described within this decision. The additional features associated with the new Debt Securities, Preferred and Preference Stock adopted herein are also authorized for the unused authority previously granted in Commission Decisions (D.) 04-01-009 and D.93-09-069.
2. SDG&E may enter into one or more contracts for the purpose of managing interest rate risk. This authority shall not be considered as separate debt for purposes of calculating the remaining financing authorization granted by this order.
3. SDG&E's debt issues with principal amounts greater than \$200 million are exempt from the requirements of the Commission's Competitive Bidding Rule.
4. SDG&E is authorized to issue securities in a manner consistent with the modifications to the Competitive Bidding Rule set forth in Resolution F-616.
5. On or before the 25th day of the month following each quarter, SDG&E shall file the reports required by General Order Series 24-B.
6. The authority granted by this order shall become effective when SDG&E pays \$512,000 as required by Pub. Util. Code §§ 1904(b) and 1904.1.
7. The Application is granted as set forth above.
8. Application 06-02-017 is closed.

This order is effective today.

Dated May 11, 2006, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
DIAN M. GRUENEICH
RACHELLE B. CHONG
Commissioners

Commission John A. Bohn, being necessarily
absent, did not participate.