

Application of SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) for authorization to: (1) issue Debt Securities (First Mortgage Bonds, debentures, overseas indebtedness, foreign securities, medium-term notes, accounts receivable financing), and to enter into long-term loans, in an aggregate principal amount up to \$800 million of debt capital, in addition to previously-authorized amounts; (2) issue certain tax-exempt Debt Securities in order to guarantee the obligations of others; (3) include certain features in the Debt Securities or to enter into certain derivative transactions related to underlying debt in order to improve the terms and conditions of the debt portfolio and with the goal of lowering the cost of money for the benefit of ratepayers; (4) issue and sell up to \$150 million of par or stated-value Preferred or Preference Stock, in addition to previously-authorized amounts; (5) hedge planned issuances of Debt Securities, Preferred or Preference Stock; (6) obtain certain exemptions from the Commission's Competitive Bidding Rule; and (7) take all other necessary, related actions.

Application No. 10-05- \_\_\_\_

Exhibit No. \_\_\_\_\_

**DIRECT TESTIMONY OF JACK S. LEWIS  
FOR SAN DIEGO GAS & ELECTRIC COMPANY**

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

**May 17, 2010**

1 **DIRECT TESTIMONY OF JACK S. LEWIS**

2  
3 **By whom are you employed and what is your current position?**

4 I am employed by San Diego Gas & Electric Company (“SDG&E”) as a Finance  
5 Project Manager.

6  
7 **What are your principal responsibilities?**

8 My principal responsibilities include Treasurer, Regulatory and Finance support,  
9 business planning, forecasting and financial analysis.

10  
11 **Please describe your educational background and professional experience.**

12 I possess a Bachelor of Science degree in Business Administration from San  
13 Diego State University and a Master of Science from San Diego State University.

14 I worked for the public accounting firm of Coopers & Lybrand from 1986 until  
15 1988 where I acquired my CPA license. I have held a variety of financial and  
16 Treasury positions in Sempra Energy and Sempra Energy Utilities.

17  
18 **Have you previously provided testimony before the California Public Utilities  
19 Commission (“Commission”)?**

20 Yes, I have provided testimony before the Commission on several financing  
21 authority applications.

1 **What is the purpose of your testimony?**

2 The purpose of my testimony is to sponsor Schedules I through XI, which are  
3 attached to this testimony.

4

5 **Please describe Schedules I through XI.**

6 Schedules I through XI provide various financial data for use by the Commission  
7 in assessing this instant long-term financing application. The format and content  
8 of the schedules are similar to those that accompanied SDG&E's previous long-  
9 term financing applications. As in previous applications, this application  
10 reflects annual ranges of estimated capital expenditures and rounds to the  
11 nearest \$100 million to project SDG&E's financing needs.

12

13 Schedule I is a three-year forecast of the SDG&E's capital expenditures. Included  
14 in this forecast and described in greater detail is \$1.4 billion of capital cost for  
15 Sunrise Powerlink. Also, included in this forecast are capital expenditures for  
16 Smart Metering and other/base capital investments that are discussed in the  
17 application.

18

19 Schedules II through VIII summarize additional financial information related to  
20 this application as noted on the heading of each schedule.

21

22 Schedule IX presents in pro-forma fashion how SDG&E's maximum requested

1 long-term financing would affect SDG&E's capital structure. The resulting ratios  
2 reflect the hypothetical change assuming all the requested financing in this  
3 application was issued in one day. This scenario is not representative of  
4 SDG&E's plan as shown in Schedule IIIa. Additionally, the actual planned debt  
5 ratios are much lower since the planned ratios include new equity that is  
6 inflowing in the form of net income, which offsets much or all of the new  
7 planned annual debt issuances.

8  
9 Schedule X provides a detailed calculation of the application fee required by  
10 Public Utilities Code §1904(b), and Schedule XI details SDG&E's long term debt  
11 portfolio at December 31, 2009.

12  
13 **Does this complete your testimony?**

14 Yes.

**Schedule I**  
**San Diego Gas & Electric Company**  
**Construction Budgeted**  
(\$ millions)

	2010	2011	2012
Gas T&D, Elect Dist. and Generation	700 - 750	800 - 850	500 - 550
Electric Transmission	650 - 750	1050 - 1150	450 - 550
Common/Other	50 - 60	50 - 60	50 - 60
Total cash required for construction expenditures	<u>1,400 - 1,600</u>	<u>1,900 - 2,100</u>	<u>1,000 - 1,200</u>

**Schedule II**  
**San Diego Gas & Electric Company**  
**2010 Monthly Cash Flow Projections (\$ millions)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cash (short-term debt) beginning balance	13	5	10	40	160	120	(60)	(140)	(140)	300	270	290
Change in Free Cash Flow <sup>1</sup>	(8)	5	30	(130)	(40)	(180)	(80)	-	(110)	(30)	(80)	(210)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-
Common	-	-	-	-	-	-	-	-	-	-	100	-
Long term debt	-	-	-	250	-	-	-	-	550	-	-	-
Cash (short-term debt) beginning balance	5	10	40	160	120	(60)	(140)	(140)	300	270	290	80

<sup>1</sup>Projections based on current estimates and are subject to change.

**Schedule II**  
**San Diego Gas & Electric Company**  
**2011 Monthly Cash Flow Projections (\$ millions)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cash (short-term debt) beginning balance	80	70	20	(30)	230	100	250	150	60	(10)	270	200
Change in Free Cash Flow <sup>1</sup>	(10)	(50)	(50)	(140)	(130)	(400)	(100)	(90)	(70)	(20)	(70)	(190)
Preferred	-	-	-	400	-	-	-	-	-	-	-	-
Common	-	-	-	-	-	250	-	-	-	-	-	-
Long term debt	-	-	-	-	-	300	-	-	-	300	-	-
Cash (short-term debt) beginning balance	70	20	(30)	230	100	250	150	60	(10)	270	200	10

<sup>1</sup>Projections based on current estimates and are subject to change.

**Schedule II**  
**San Diego Gas & Electric Company**  
**2012 Monthly Cash Flow Projections (\$ millions)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cash (short-term debt) beginning balance	10	60	90	100	20	-	(70)	(70)	(50)	(40)	40	60
Change in Free Cash Flow <sup>1</sup>	50	30	10	(80)	(20)	(70)	-	20	10	80	20	(110)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-
Common	-	-	-	-	-	-	-	-	-	-	-	-
Long term debt	-	-	-	-	-	-	-	-	-	-	-	200
Cash (short-term debt) beginning balance	60	90	100	20	-	(70)	(70)	(50)	(40)	40	60	150

<sup>1</sup> Projections based on current estimates and are subject to change.



**Schedule IIIa**  
**San Diego Gas & Electric Company**  
**Statement of Cash Requirements for the Years 2010, 2011, and 2012**  
(\$ millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Funds for construction (capital expenditures)	(1,500)	(2,000)	(1,100)
Maturing long-term debt	-	-	-
Beginning of year cash (short-term debt) balance	<u>13</u>	<u>80</u>	<u>10</u>
Subtotal	(1,487)	(1,920)	(1,090)
Less: Estimated cash from internal sources	<u>667</u>	<u>680</u>	<u>1,040</u>
External funds required	(820)	(1,240)	(50)
External funds provided:			
Common stock	100	250	-
Preferred stock	-	400	-
Long-term debt	<u>800</u>	<u>600</u>	<u>200</u>
*End of year cash (short term debt) balance	<u><u>80</u></u>	<u><u>10</u></u>	<u><u>150</u></u>

\* May not foot exactly due to rounding

**Schedule IIIb**  
**San Diego Gas & Electric Company**  
**Amount and Percentage of Internal Funds Provided**  
(\$ millions)

<u>Year</u>	<u>Internal Sources</u>	<u>Internal Sources as % Construction Expenditures</u>
2010	667	44%
2011	680	34%
2012	1040	95%

**Schedule IV**  
**San Diego Gas & Electric Company**  
**Statement of Unreimbursed Construction**

Net utility plant		\$ 5,077,881,632
Net proceeds from securities:		
Preferred stock	\$ (78,475,400)	
Common stock	(571,076,437)	
Premium on capital stock	(592,222,753)	
Long-term debt	<u>(2,190,625,000)</u>	
Total net proceeds	\$ (3,432,399,590)	
Advances for construction	<u>(16,970,284)</u>	
Total deductions		<u>(3,449,369,874)</u>
Unreimbursed construction as of December 31, 2009		<u>\$ 1,628,511,758</u>

**Schedule V**  
**San Diego Gas & Electric Company**  
**Fiscal Year 2009 Revenue Data**  
(\$ millions)

Company operating revenue	3,023
California operating revenue	3,023
California operating revenue % company	100%
Company net income before preferred dividend requirements	349

**Schedule VI**  
**San Diego Gas & Electric Company**  
**2009 Historical Financing Data**

<b>Date</b>	<b>Transaction</b>	<b>Principal amount</b>
May 14, 2009	Issued first-mortgage bond Series GGG	\$300 million

**Schedule VII**  
**San Diego Gas & Electric Company**  
**2010 Projected Financing**

<b>Date</b>	<b>Transaction</b>	<b>Principal amount</b>
May 13, 2010	First Mortgage Bond Series HHH*	\$250 million
Second half of 2010	New First Mortgage Bonds	Up to \$550 million

\* Transaction was executed.

**Schedule VIII**  
**San Diego Gas & Electric Company**  
**Short-Term Financing in Excess of CPUC Code §823 (c) Allowance**  
(\$ thousands)

	<u>December 31, 2009</u>
Common stock issued	571,076
Preferred and preference stock	78,475
Long-term debt (excluding capital leases)	<u>2,190,625</u>
Total capitalization at December 31, 2009	<u><u>2,840,177</u></u>
5% allowed by CPUC Code §823 (c)	142,009
Maximum anticipated amount of short-term debt needed	<u>692,009</u>
Total excess financing authority required	550,000
Current excess financing authority granted under D.06-05-029	<u>550,000</u>
Additional financing authority requested in this application	<u>-</u>

**Schedule IX**  
**San Diego Gas & Electric Company**  
**\*Capital Ratios**  
(\$ thousands)

	<b>12/31/09 Actual</b>		<b>Pro-forma, showing the effect of requested authority</b>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
<b>Long-term debt</b>				
Long-term debt, capitalized leases and other**	2,210,775		2,210,775	
<i>Additional long-term borrowing</i>	-		800,000	
Less: Unamortized expenses and discounts**:	(27,728)		(27,728)	
Total long-term debt	<u>2,183,047</u>	<u>43.6%</u>	<u>2,983,047</u>	<u>50.1%</u>
<b>Short-term debt</b>				
Short-term borrowings under PUC Code §823(c)	-		-	
Current portion of long term debt	-		-	
Total short-term debt	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>0.0%</u>
Total debt	<u>2,183,047</u>	<u>43.6%</u>	<u>2,983,047</u>	<u>50.1%</u>
<b>Preferred stock</b>				
Current balance	78,475		78,475	
<i>Additional preferred and preference stock</i>	-		150,000	
Total preferred stock	<u>78,475</u>	<u>1.6%</u>	<u>228,475</u>	<u>3.8%</u>
<b>Common equity</b>				
Common equity held by Sempra Corp.	<u>2,739,841</u>	<u>54.8%</u>	<u>2,739,841</u>	<u>46.0%</u>
<b>Total capitalization</b>	<u>5,001,363</u>	<u>100.0%</u>	<u>5,951,363</u>	<u>100.0%</u>

\* The above pro forma ratios demonstrate how SDG&E's maximum requested long-term financing would affect the Company's capital structure if it were all issued on December 31, 2009. The resulting ratios reflect the hypothetical change assuming all of the requested financing in this application was issued instantaneously on December 31, 2009. This scenario is not representative of SDG&E's plans as shown in Schedule II and Schedule III. Additionally, SDG&E's planned debt ratios are much lower, since the actual capital structure will also include new equity from net income generated during 2010 - 2012 which is not reflected in the ratios above. This net income of over \$1 Billion during 2010 - 2012 will significantly increase the equity ratio and decrease the debt ratio shown above.

\*\*Excludes capital lease of \$709 million, which relates to the power purchase agreement with Otay Mesa Energy Center, LLC.

\*\*\*Does not include loss on reacquisition of long-term debt.



**Schedule X**  
**San Diego Gas & Electric Company**  
**Computation of Fee**

Item	Amount	Rate	Fee
\$800 million of long-term borrowing authority	\$ 1,000,000	\$2 per thousand	\$ 2,000
	9,000,000	\$1 per thousand	9,000
	<u>790,000,000</u>	\$0.50 per thousand	<u>395,000</u>
	<u>\$ 800,000,000</u>		<u>\$ 406,000</u>
\$150 million of preferred stock issuance authority	\$ 1,000,000	\$2 per thousand	\$ 2,000
	9,000,000	\$1 per thousand	9,000
	<u>140,000,000</u>	\$0.50 per thousand	<u>70,000</u>
	<u>\$ 150,000,000</u>		<u>\$ 81,000</u>
Total fee required			<u>\$ 487,000</u>

**Schedule XI**  
**San Diego Gas & Electric Debt Outstanding**  
**December 31, 2009**

<u>No.</u>	<u>Type</u> <sup>1</sup>	<u>Bond</u>	<u>Maturity</u>	<u>Principal</u> <u>(\$ millions)</u>
1	PCB	Series KK / CPCFA91A	06/01/15	14.4
2	PCB	Series RR / CPCFA93A	06/01/21	60.0
3	IDB	Series OO4 / CV92D	12/01/27	45.0
4	IDB	Series OO2 / CV92B	12/01/27	60.0
5	IDB	Series OO3 / CV92C	12/01/27	45.0
6	PCB	Series CPCFA96A	06/01/14	129.8
7	IDB	Series CV96A	07/01/21	38.9
8	IDB	Series CV96B	12/01/21	60.0
9	IDB	Series CV97A	03/01/23	25.0
10	IDB	Series VV/ CV04A	02/15/34	43.6
11	IDB	Series WW/ CV04B	02/15/34	40.0
12	IDB	Series XX/ CV04C	02/15/34	35.0
13	IDB	Series YY/ CV04D	01/01/34	24.0
14	IDB	Series ZZ/ CV04E	01/01/34	33.7
15	IDB	Series AAA/ CV04F	05/01/39	75.0
16	FMB	Series BBB	05/15/35	250.0
17	FMB	Series CCC	11/15/15	250.0
18	FMB	Series DDD	06/01/26	250.0
19	FMB	Series EEE/ CV06A	07/01/18	161.2
20	FMB	Series FFF	09/15/37	250.0
21	FMB	Series GGG	06/01/39	300.0
		Total		2,190.6

On May 13th, 2010, SDG&E issued the following First Mortgage Bonds:

22	FMB	Series HHH	05/15/40	250.0
----	-----	------------	----------	-------

<sup>1</sup> "IDB" = Industrial Development Bonds,

"PCB" = Pollution Control Bonds, "FMB" = First Mortgage Bonds.