

LEM

Decision No. 16069.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SAN DIEGO CONSOLIDATED GAS AND ELEC-)
TRIC COMPANY, a corporation, for an)
order authorizing the issue and sale)
of its common stock of the par value) Application No. 12504
of \$2,000,000.)

Cummins, Roemer & Flynn;
Sweet, Stearns & Forward; and
Chickering and Gregory, by
Allen L. Chickering, for applicant.

BY THE COMMISSION:

O P I N I O N

San Diego Consolidated Gas and Electric Company asks permission to issue and sell at par, \$2,000,000. of its common capital stock for the purpose of paying outstanding indebtedness, reimbursing its treasury and financing the cost of construction.

The company also asks permission to pay all or a part of its common stock dividend during 1926 in common stock, should its Board of Directors deem it advisable, such stock to be a part of the \$2,000,000. applied for in this proceeding.

Applicant reports that as of March 31, 1921 its construction expenditures made prior to that date were capitalized and that accordingly it has adopted that date as a starting point in estimating its construction as a basis for subsequent capitalization. Applicant reports in this application that between March 31, 1921 and December 31, 1925 net construction expenditures

amounted to \$11,145,918.87, as shown in some detail in Exhibit "D" and that it retired \$550,000. of five year collateral trust notes due July 1, 1923, which had temporarily capitalized construction expenditures. Adding the two amounts makes a total of \$11,695,918.87. From this amount there is deducted \$1,209,672.96 representing the increase in reserve for depreciation during the period, amortization of debt discount and expense and the increase in surplus, and \$7,878,710.47 representing proceeds obtained from the sale of stock and bonds, leaving a balance of \$2,607,535.44 which is said to represent uncapitalized construction expenditures as at December 31, 1925.

The company is applying for permission to issue the \$2,000,000 of common stock against these expenditures of \$2,607,535.44. It is of record that applicant obtained the money to make said expenditures of \$2,607,535.44 by borrowing \$1,575,000. on promissory notes and by investing earnings. The order herein will authorize the issue and sale of the \$2,000,000. of stock at par and will provide that the proceeds may be used to pay indebtedness incurred for construction purposes and to reimburse its treasury on account of earnings used for the same purpose and to provide in part the cost of estimated construction for 1925.

There has been filed in this proceeding as Exhibit No. "2" a copy of the 1926 budget of capital requirements, showing estimated expenditures of \$³2,858,243. which is segregated as follows:-

Electric department:		
Production	\$1,608,829.	
Transmission	19,508.	
Distribution	<u>996,368.</u>	\$2,624,705.
Gas department:		
Production	\$ 178,428.	
Distribution	<u>815,019.</u>	993,447.
Steam sales department		33,728.
General		<u>206,363.</u>
Total		<u>\$3,858,243.</u>

Coming to the request for permission to issue stock as a dividend, it appears that applicant has outstanding \$6,292,500. of preferred stock and \$3,032,500. of common stock. On the preferred stock regular dividends have been paid at the rate of seven percent per annum, and on the common stock, during the past five years, at the rate of ten percent per annum, except in 1923 when only eight percent was paid. The annual dividend at the rate of ten percent on the common stock amounts to \$303,250. Applicant "alleges that in paying dividends during the year 1926 on its said common stock, in order to keep in its treasury the money amount of the dividends on the common stock, if it should appear advisable to its Board of Directors, it may desire to pay all or a portion of such common stock dividends in its common stock at par". This request we feel cannot be granted, for the reason that the Commission has no authority to authorize the issue of stock for the purpose of paying dividends. It may authorize upon proper showing the issue of stock for the purpose of enabling a utility to reimburse its treasury on account of earnings invested in properties. True, thereafter stock might be distributed as a dividend, but the amount of such distribution would be limited by the utilities' surplus. The surplus of applicant is reported at \$276,654.83 which we feel is the maximum amount of common stock that applicant can be permitted to issue to reimburse its treasury and thereafter distribute as a dividend. While applicant may have invested more than \$276,654.83 of earnings in its properties, the excess is offset by reserves or accrued liabilities not due and any proceeds obtained from the sale of stock should be used to replenish the reserves or meet the liabilities when due, and not be distributed as a dividend.

ORDER

San Diego Consolidated Gas and Electric Company having applied to the Railroad Commission for permission to issue \$2,000,000

of stock, a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required for the purposes specified herein, and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED that San Diego Consolidated Gas and Electric Company be, and it is hereby, authorized to issue and sell at not less than par \$2,000,000. of its common capital stock and to use the proceeds to pay indebtedness incurred in making capital expenditures, to reimburse its treasury on account of earnings invested in properties and to finance in part the estimated expenditures for capital purposes during 1926, provided that of the stock used to reimburse applicant's treasury on account of earnings invested in properties, an amount of not exceeding \$276,600. may be used by applicant to pay dividends on its common stock, such payment to be in lieu of cash dividends on said stock.

The authority herein granted is subject to the following conditions:-

1. Applicant shall keep such record of the issue, sale and delivery of the stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.

2. The authority herein granted shall become effective upon the date hereof, but under such authority no stock may be issued after December 31, 1926.

DATED at San Francisco, California, this 3rd day of March, 1926.