

Decision No. ✓

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

ORIGINAL

Application No. 1188

In the Matter of the application of)
PACIFIC GAS AND ELECTRIC COMPANY for)
an order authorizing the issue of)
its general and refunding mortgage)
gold bonds of the face value of)
\$5,000,000.00, and of certain first)
preferred stock and common stock.)

C. P. Cutten for applicant.

THEBEN, Commissioner.

OPINION

This is an application for an order authorizing the issue of first preferred stock, general and refunding mortgage gold bonds and common stock in the amounts and for the purposes hereinafter specified.

Applicant asks authority now to issue its first preferred stock of the par value of \$12,500,000.00, and authority on and after July 1, 1916, to issue its first preferred stock in such a par value as may be necessary to exchange the same for original preferred stock now outstanding, as hereinafter explained.

Prior to the amendment to applicant's articles of incorporation hereinafter referred to, applicant was authorized by its articles to issue capital stock as follows:

Preferred stock - 6% cumulative - - - - \$10,000,000.00
Common stock - - - - - \$150,000,000.00

Decision No. 1432.

On April 30, 1914, applicant's issued and outstanding capital stock was as follows:

Preferred stock - 6% cumulative - - - - - \$10,000,000.00

Common stock,

In hands of public \$32,109,300.00

Owned by subsidiary
companies

31,696,866.66

63,806,166.66

The common stock held by subsidiary companies will shortly be cancelled, thus reducing the amount of applicant's issued common stock to \$32,109,300.00.

Applicant has now amended its articles of incorporation so that the total of \$160,000,000.00 authorized capital stock shall be divided as follows:

First preferred stock - 500,000 shares - \$50,000,000.00

Original preferred stock - 100,000 shares - \$10,000,000.00

Common stock - - - - - 1,000,000 " -\$100,000,000.00

The first preferred stock is an entirely new stock. The amendment to applicant's articles of incorporation provides in part that the holders of first preferred stock shall be entitled, when issued as fully paid, to cumulative preferential dividends at the rate of 6 per cent per annum before any dividend on the original preferred stock or the common stock shall be declared or paid; that a similar preference shall exist as to assets on liquidation or dissolution; that no share of first preferred stock, when the subscription has been fully paid, shall ever be subject to assessment for the purpose of conducting the business or paying the expenses or debts of this corporation, although the stock is, of course, subject to stockholder's liability in favor of creditors of the corporation, as provided by the constitution and statutes of this state; that the holders

of shares of original preferred stock shall have the right at any time on or after July 1, 1916, subject to the approval of this Commission, to surrender to the corporation their shares in exchange for shares of first preferred stock at the rate of 1.025 shares of first preferred stock for each share of original preferred stock; and that the board of directors of the corporation shall continue to have the right to set aside from the profits arising from the business of the corporation such reasonable sums as may in their judgment be necessary and proper for working capital and for usual reserves and surplus.

On June 3, 1914, applicant's board of directors authorized the president to offer immediately for subscription and purchase 125,000 shares of said first preferred stock, having a total par value of \$12,500,000.00 upon specified terms and conditions, including the following: that the price shall be \$82.50 per share, payable in installments as follows: \$5.00 per share (with subscription) on or before July 15, 1914, \$15.00 per share on or before August 15, 1914, \$12.50 per share on or before October 1, 1914, \$12.50 per share on or before January 1, 1915, \$12.50 per share on or before April 1, 1915, \$12.50 per share on or before July 1, 1915, and \$12.50 per share on or before October 1, 1915; that no dividend shall be declared or paid upon any share until it has been fully paid for; that stockholders of record on the books of the corporation at the close of business on June 3, 1914, may subscribe for stock in the proportion of three shares for each ten shares (both common and preferred) then standing in their names on the books of the corporation; and that if at least 70% of the stock shall not have been subscribed for on or before August 15, 1914, the corporation will, on or before September 1, 1914, return to all subscribers the amounts respectively paid by each with interest at the rate of 6 per cent per annum.

In pursuance of this resolution, the first preferred stock has been offered to the stockholders of Pacific Gas and Electric Company and at the date of the hearing in excess of 20% had been subscribed for, with excess subscriptions in a number of cases.

Applicant also asks authority to issue its general and refunding mortgage gold bonds (Series A, numbered M 25,431 to 30,430 inclusive) in the aggregate face value of \$5,000,000.00 for the purposes hereinafter specified. By its Decision No. 736 on Application No. 603 (Volume 2, Opinions and Orders of Railroad Commission of California p. 1051), rendered on June 20, 1913, this Commission heretofore authorized the issue of these same bonds for the purposes specified in the order. These bonds, together with general lien bonds of the face value of \$5,000,000., have been pledged by applicant as collateral security for outstanding gold notes of the face value of \$7,000,000.00. When these notes are paid, all these bonds will be returned to applicant's treasury. The general lien bonds and the indenture securing the same will then be cancelled, but applicant desires again to issue the \$5,000,000.00 of general and refunding mortgage bonds.

Applicant desires to issue said first preferred capital stock of the par value of \$12,500,000.00 and said general and refunding mortgage bonds of the face value of \$5,000,000.00 and to use the proceeds thereof for the following purposes:

- (1) To discharge and refund its 6% gold notes and its 5% gold notes in the aggregate face amount of - - - - - \$7,000,000.00
- (2) To reimburse its treasury for moneys expended for the acquisition of property and for the construction, completion and extension and improvement of facilities as shown on pages 15 and 16 of Exhibit "A" attached to the petition herein, no part of which, so applicant alleges, has been secured from the issue of stock, bonds, notes or other evidences of indebtedness, \$4,586,661.00

- | | |
|--|-------------------------|
| (3) To incur other capital expenditures
or discharge and refund indebtedness
incurred for the same - details not
as yet specified - - - - - | Balance of
proceeds. |
|--|-------------------------|

Said Exhibit "A" shows on page 15 a reimbursement allowed for uncapitalized construction expenditures prior to January 1, 1913, in accordance with this Commission's Decision on Application No. 552, of \$3,750,000.00 and construction expenditures reported to this Commission from month to month from January 1913, to April 1914, inclusive, totalling the sum of \$7,836,661.78.

The total proceeds to be derived from the sale of the first preferred stock and the bonds can not, as yet, be ascertained for the reason that applicant is not as yet prepared to report to this Commission the price at which it can sell the bonds. Applicant expects that when it has put behind the outstanding bonds the additional moneys to be secured from the sale of \$12,500,000.00 of first preferred stock, it will be able to secure for its bonds a net price in excess of 85 per cent of their face value. Applicant's request with reference to the bonds will be granted subject to the proviso that applicant shall hereafter secure from this Commission a supplemental order specifying the minimum price at which the bonds may be sold, before any thereof may be issued.

Applicant also requests authority on and after July 1, 1916, to issue its first preferred stock in exchange for shares of the outstanding preferred stock (now to be called original preferred stock) at the rate of 1.025 shares of first preferred stock for each share of original preferred stock to all holders of the latter stock who may desire to make the exchange. This is part of the general plan by which the first preferred stock is to be authorized and issued and to take its place ahead of the existing preferred stock. While this exchange will result in some additional securi-

ties over those now outstanding, it is an integral part of a general plan which will materially improve applicant's financial condition and which is worthy of commendation from the public authorities. I shall recommend that this part of the application be also granted but that some reasonable time after July 1, 1916, such as a period of six months, be set for the consummation of these exchanges, with the possibility of an extension of this period, if found necessary.

In its petition, applicant further asked authority to use a portion of the proceeds from the sale of its preferred stock as follows:

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|-----|---|-----------------------|
| (a) | For the reimbursement of moneys expended for the retirement of bonds through sinking funds from January 1, 1914, to April 30, 1914, - - - - | \$ 40,760.00 |
| (b) | To provide cash for meeting sinking fund payments now due and unpaid, which will be applied to refunding of bonds, - - - - - | 394,375.81 |
| (c) | To provide cash for retiring bonds through sinking funds from April 30 to December 31, 1914, - estimated at | 724,687.50 |
| | Total - - | <u>\$1,159,823.31</u> |

If this portion of the application were granted as applied for, the net result would be that each time a \$1,000 bond is retired, preferred stock of the par value of \$1200.00 (selling at 82½% of par value) would take its place. At the hearing Mr. A.F. Hockenbeamer, applicant's second vice president and treasurer, agreed that this would not be desirable financing and asked that the petition be amended so as to ask authority to issue common stock at par to meet the aforesaid sinking fund requirements. The result desired would be attained by paying a portion of dividends from earnings in common stock at par--a plan much preferable to the one at first suggested.

Reference is hereby made to the opinions and orders heretofore rendered by this Commission, wherein the financial affairs of this applicant have, from time to time, been thoroughly analyzed. I do not deem it necessary, in this proceeding, to again go over the ground which has heretofore been covered. At the hearing the Commissioner made inquiry into applicant's ability to meet dividends and interest on the proposed additional first preferred stock and bonds. Mr. Hockenbeamer testified in reply that the gross revenue lost by the company's rate reductions in 1911 and 1912 was made up by the end of 1912; that he estimated for 1914 net earnings of \$4,000,000.00 after the payment of bond interest and discounts, thus allowing dividends on both the original preferred stock and the new first preferred stock, amounting to \$1,350,000.00, and leaving a balance of \$2,650,000.00; and that for 1915 he estimated a balance of about \$3,650,000.00 after paying bond interest and discounts and interest on the preferred stock.

While these figures are, of course, only estimates, I am satisfied from the evidence, that applicant's earnings will be large enough to enable it to take care of its new obligations--both bonds and preferred stock.

Applicant's plan to sell its new first preferred stock appeals to me as thoroughly sound and commendable. It will enable applicant to refund the outstanding gold note issues of \$7,000,000., put additional security behind applicant's bonds, help take care of the margin between the 100% of construction expenditures and the 90% face value of bonds which applicant can issue against construction expenditures, and probably result in an increase in the price to be secured for its general and refunding bonds hereafter issued. The plan is in accord with suggestions for junior financing which have been made by this Commission from time to time to various public utilities and is worthy of emulation, in so far as applicable, by other utilities.

I find that the purposes for which the proceeds of the bonds and capital stock herein authorized are to be issued are not in whole or in part reasonably chargeable to operating expenses or to income and recommend that the application, as modified, be granted subject to the conditions specified in the order.

I submit herewith the following form of order:

O R D E R

PACIFIC GAS AND ELECTRIC COMPANY having applied to the Railroad Commission of the State of California for an order authorizing the issue of its general and refunding mortgage gold bonds of the face value of \$5,000,000.00, of its first preferred stock of the par value of \$12,500,000.00 and of additional first preferred stock as will hereinafter appear, and of its common capital stock of the par value of \$1,159,800.00, and a public hearing having been held on said application, and the Railroad Commission finding that the purposes for which the proceeds of said bonds and stock are to be used are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that the Railroad Commission hereby authorizes the issue by Pacific Gas and Electric Company of

(a) \$5,000,000, face value, of principal of its general and refunding mortgage gold bonds, being 5,000 bonds of Series A, numbered M 25,431 to 30,430 inclusive, maturing on the first day of January 1942, bearing interest at the rate of 5% per annum, payable semi-annually, under and in pursuance of the terms of the mortgage or deed of trust heretofore and on the first day of December, 1911, made and executed by said Pacific Gas and Electric Company to Bankers' Trust Company of New York, corporate trustee, and Frank B. Anderson of San Francisco, individual trustee;

(b) \$12,500,000.00, par value of its first preferred stock, con-

sisting of 125,000 shares of the par value of \$100.00 each;

(c) so much additional first preferred stock as may be necessary to exchange for original preferred stock on and after July 1, 1916, as hereinafter more specifically provided; and

(d) its common capital stock of the par value of \$1,159,800.00, consisting of 11,598 shares of the par value of \$100.00 each, on the following conditions and not otherwise, to-wit:

1. Pacific Gas and Electric Company shall not issue said bonds until it has secured from this Commission a supplemental order specifying the minimum price at which they may be sold.
2. Pacific Gas and Electric Company shall sell said first preferred stock of the par value of \$12,500,000 so as to net in cash not less than 82½% of its par value.
3. Pacific Gas and Electric Company shall dispose of said common capital stock at not less than its par value.
4. Pacific Gas and Electric Company shall use the proceeds from the issue of said bonds of the face value of \$5,000,000.00 and of said first preferred stock of the par value of \$12,500,000.00 only for the following purposes:
 - (a) To discharge and refund its 6% gold notes and its 5% gold notes, proceeds not to exceed \$7,000,000
 - (b) To discharge and refund obligations incurred and reimburse its treasury for the acquisition of property and for the construction, completion, extension and improvement of its facilities as shown on pages 15 and 16 of Exhibit "A" attached to the petition herein, proceeds not to exceed - - - - 4,586,661

(c) For other purposes properly capitalizable as specified in Section 52 of the Public Utilities Act, when applicant shall have specified such purposes and the amounts claimed for each and shall have secured from the Railroad Commission a supplemental order authorizing such expenditure - - - - the balance of the proceeds

5. Pacific Gas and Electric Company is hereby authorized to issue on July 1, 1916, and during the period of six months subsequent thereto, unless such period be hereafter extended, 1.025 shares of its first preferred capital stock in exchange for each share of its original preferred stock up to the maximum of \$10,000,000.00 par value of said original preferred stock, to all holders of said original preferred stock who may present the same for such exchange.
6. Pacific Gas and Electric Company shall use the proceeds from the issue of said common capital stock for the following purposes and in the following amounts:
- (a) For the reimbursement of moneys expended for the retirement of bonds through sinking funds from January 1, 1914, to April 30, 1914, not to exceed - - - - - \$40,760.00
- (b) To provide cash for meeting sinking fund payments now due and unpaid, which will be applied to refunding of bonds, not to exceed - - - - - 394,375.81
- (c) To provide cash for retiring bonds through sinking funds from April 30, to December 31, 1914 not to exceed - - - 724,687.50
7. Pacific Gas and Electric Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds and stock hereby authorized to be issued, and on or before the twenty-fifth day of each month shall make verified reports

to the Railroad Commission stating the sale of bonds and stock during the previous month, the terms and conditions of the sale, the moneys realized therefrom and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

8. The authority hereby given to issue stock other than the first preferred stock to be exchanged for original preferred stock, as to which a time limit has already been specified, shall apply only to stock issued on or before the first day of ^{Novem}~~Novem~~^{ber} 1915. The time limit for the issue of the bonds will be specified when the supplemental order authorizing their issue is made.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 30th day of June, 1914. (H. G. M.)

John McCarroll
W. H. V. Leland
Chas. L. Gordon
Mar. Thelen
Edwin O. Edgerton
Commissioners.

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