

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

Decision No. 1939

In the Matter of the Application)
of SAN DIEGO CONSOLIDATED GAS)
and ELECTRIC COMPANY for an order) Application No. 1354.
authorizing the issue of debenture)
bonds of the face value of \$500,000.00.)

A. H. Sweet for applicant.

REEMEN, Commissioner.

O P I N I O N.

This is an application for authority to issue \$500,000.00, face value, of 6 per cent debenture bonds at not less than 93 per cent of their face value and accrued interest, for the purpose of paying outstanding indebtedness, as will hereinafter appear in greater detail.

Applicant alleges that in making up the difference between the moneys realized by it from the sale of first mortgage bonds and the cash cost of permanent extensions and additions to its properties since January 1, 1909, applicant has been compelled to incur a large floating indebtedness, amounting on August 31, 1914, to \$548,642.08. This indebtedness is as follows:

Due to Standard Gas & Electric Co. on notes.....	\$108,583.94
" " " " " " " " on open acc't..	159,518.43
" " H. M. Byllesby & Co. on notes.....	80,000.00
" " Banks and others on notes.....	124,394.00
Accounts payable.....	<u>76,345.71</u>
Total	\$548,642.08

Applicant now desires to pay this indebtedness, except the accounts payable, amounting to \$76,345.71, by issuing its 6 per cent debenture bonds of the total face value of \$500,000.00 to be sold at not less than 93 per cent of their face value, together with accrued interest.

Applicant's financial affairs have heretofore on several applications been investigated by this Commission and reference is hereby made to the opinions and orders therein.

The territory served by applicant, being the city of San Diego and the surrounding country, has been growing in population by leaps and bounds during the last few years, and the number of applicant's customers, both for electricity and gas, has increased *pari passu*. Applicant has been called upon to make heavy expenditures for extensions and additions to meet the growth in the territory served by it, and the problem of securing the necessary additional capital has not been free from difficulties. If ~~the~~ bonds or debentures are to be sold at a discount to pay the indebtedness for the entire new capital expenditures, it is evident that the margin between the value of the property and the face value of the bonds and debentures outstanding will gradually decrease until it entirely disappears--a condition fraught with danger and which must be avoided.

During the time these new expenditures have been accumulating, applicant has not merely continued to pay its regular dividend of 7 per cent on its common stock but has also paid additional dividends as follows:

January, 1912, Extra Dividend.....	\$147,000.00
July, " " "	108,600.00

From June, 1913, to date, applicant has also increased its dividend on common stock from 7 per cent to 10 per cent per annum. The excess of the 10 per cent dividend in 1913 over the regular 7 per cent dividend was \$47,512.00, and this excess dividend was continued in 1914 to the date of the hearing herein.

Applicant's principal stockholder is Standard Gas and Electric Company, which company owns 27,132 shares out of a total of 27,150 shares of applicant's issued capital stock. This company is also applicant's principal creditor. Why applicant has been paying out the excess dividend hereinbefore designated, while at the same

time its indebtedness for new capital expenditures has been rapidly increasing, is not quite clear. It would seem wiser to use the excess earnings over the regular 7 per cent dividend for the purpose of paying off a portion of this indebtedness instead of paying out the excess dividend and then being compelled to sell bonds or debentures at a discount to pay the indebtedness. If one dollar of earnings is used to pay one dollar of indebtedness, the position of the property is strengthened and its bonding capacity is correspondingly increased. However, if one dollar is paid out in dividends it is gone for all time and the utility must, if it sells bonds or debentures at 93 per cent of their face value, sell \$1.07, face value, thereof to secure sufficient funds to pay \$1.00 of indebtedness, and no margin for further bonding is created. It seems clear that, particularly at the present time, when extensive additional demands for further capital expenditures are being made upon applicant, it would be the part of wisdom to use the earnings above the 7 per cent dividend to pay indebtedness of applicant instead of paying them out as dividends, and I recommend that this policy be pursued until further suggestion from this Commission.

This matter has been drawn to applicant's attention and applicant has requested that its application be modified so as to ask for the issue of debentures of the face value of \$250,000, to be sold at not less than 93 per cent of their face value, plus accrued interest, and of common capital stock of the par value of \$240,000, to be sold at par, the proceeds to be used to pay applicant's indebtedness, as specified in the petition herein.

I find that the purposes for which the proceeds of the debentures and capital stock herein authorized are to be used are not in whole or in part reasonably chargeable to operating expenses or to income and recommend that the application be granted as modified.

In authorizing the issue of capital stock at par, the Commission is not as yet prepared to pass on the question of the actual value of the capital stock heretofore issued.

I submit the following form of order:

O R D E R.

SAN DIEGO CONSOLIDATED GAS AND ELECTRIC COMPANY having applied to the Railroad Commission of the State of California for an order authorizing the issue of debenture bonds by said Company to the amount of \$250,000.00, face value, said bonds to be payable on the first day of December, 1922, unless sooner redeemed, and to bear interest at the rate of six (6) per cent per annum, payable semi-annually, under and in pursuance of the terms of an indenture to Continental and Commercial Trust and Savings Bank and Frank H. Jones, Trustees, dated December 1, 1912, and also \$240,000.00, par value, of its common capital stock, for the purposes hereinafter specified, and a public hearing having been held upon said application, and the Railroad Commission finding that the proceeds from the issue of said debentures and capital stock are necessary to and reasonably required by said company for the discharge and lawful refunding of obligations, as will hereinafter appear in greater detail, and that the purposes for which said debentures and capital stock are to be issued are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that San Diego Consolidated Gas and Electric Company be and the same is hereby authorized to issue \$250,000.00, face value, of said company's six (6) per cent debenture bonds, payable on December 1, 1922, unless sooner redeemed, interest to be payable semi-annually, under and in pursuance of the terms of an indenture to Continental and Commercial Trust and Savings Bank and Frank H. Jones, Trustees, dated December 1, 1912, and also \$240,000.00, par value, of the company's common capital stock, on the following conditions and not otherwise, to-wit:

1. San Diego Consolidated Gas and Electric Company shall sell said debenture bonds hereby authorized so as to net the said company not less than ninety-three (93) per cent of the face

value of the principal thereof, plus interest accrued thereon, and shall sell said common capital stock at not less than par.

2. San Diego Consolidated Gas and Electric Company shall not be authorized to issue said debenture bonds unless prior to the issue thereof or concurrently therewith it shall issue its said capital stock at par.

3. The proceeds from the sale of said debenture bonds and of said common capital stock shall be used only for the purpose of discharging or refunding obligations of said company set forth with particularity in the petition herein and summarized as follows:

Due to Standard Gas & Electric Company on notes	\$108,583.94
Due to Standard Gas & Electric Company on open acct.	159,318.43
Due to E. M. Byllesby & Co., on notes.....	80,000.00
Due to banks and others on notes.....	<u>124,394.00</u>
Total.....	\$472,296.37

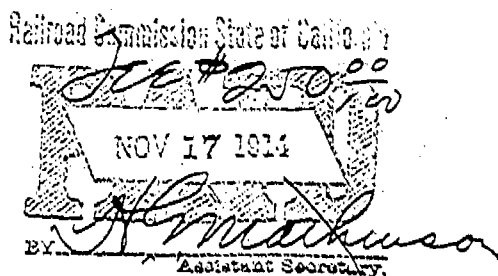
4. San Diego Consolidated Gas and Electric Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the debenture bonds and common capital stock hereby authorized to be issued, and on or before the 25th day of each month the Company shall make verified reports to the Railroad Commission, stating the sale or sales of said bonds and capital stock during the preceding month, the terms and conditions of 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.

5. In so far as this order authorizes the issue of debenture bonds, it shall not become effective until applicant has paid the fee specified in Section 57, as amended, of the Public Utilities Act.

6. The authority hereby given to issue debenture bonds and common capital stock shall apply only to debenture bonds and capital stock issued on or before June 1, 1915.

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 13th day of November, 1914.



H. Stoveland

W. G. Gordon

Max Thelen

Edwin O. Edgerton

Commissioners.