

ORIGINAL

Decision No. 3280

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SAN DIEGO CONSOLIDATED GAS AND ELECTRIC)
 COMPANY, a corporation, for authority) Application No. 2097
 to increase its capital stock and to)
 issue \$500,000 par value of preferred)
 stock.)

Sweet, Stearns and Forward for applicant.

THELSON, Commissioner:

O P I N I O N

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In this application, as amended, SAN DIEGO CONSOLIDATED GAS AND ELECTRIC COMPANY asks authority to issue \$144,000.00 par value of its 7 per cent. preferred stock at not less than the par value thereof and to increase its authorized capital stock from \$3,500,000.00 to \$6,000,000.00 as hereinafter set forth in detail. This Commission's consent is not necessary to the filing of articles of incorporation showing increased authorized common stock. The necessity of securing this Commission's consent is limited to the issue of capital stock.

In its original application herein, applicant requested authority to issue \$500,000.00 par value of 7 per cent. preferred stock at the par value thereof and to use the proceeds to pay \$356,000.00 face value of 10-year 6 per cent. debentures due December 1, 1922; to pay notes in the sum of \$30,000.00 and to reimburse its treasury for moneys expended out of income to pay for the cost of extensions, additions and betterments in the amount of \$114,000.00.

Of the \$356,000.00 face value of debentures, \$106,000.00 were issued during 1913 at 95 per cent. of their face value and accrued interest and \$250,000.00 were issued during 1915 at 93 per cent. of their face value and accrued interest. Applicant later concluded not to retire the debentures at this time and amended the application as heretofore indicated.

San Diego Consolidated Gas and Electric Company was incorporated on April 1, 1905 under the laws of the State of California. The Commission has at various times passed upon applications by this company for authority to issue securities. Decision No. 210 dated September 4, 1912, (Volume 1, Opinions and Orders of the Railroad Commission of California, page 491). Decision No. 453, dated February 11, 1913, (Volume 2, Opinions and Orders of the Railroad Commission of California, page 177). Decision No. 491, dated March 8, 1913, (Volume 2, Opinions and Orders of the Railroad Commission of California, page 264). Decision No. 761, dated June 30, 1913 (Volume 2, Opinions and Orders of the Railroad Commission of California, page 1095). Decision No. 785, dated July 10, 1913, (Volume 3, Opinions and Orders of the Railroad Commission of California, page 80). Decision No. 1939, dated November 13, 1914, (Volume 5, Opinions and Orders of the Railroad Commission of California, page 724).

In the last-mentioned decision, applicant was authorized to issue \$250,000.00 face value of 6 per cent. 10-year debentures due December 1, 1922 and \$240,000.00 par value of common stock. The debentures were to be issued at not less than 93 per cent. of their face value plus accrued

interest, and the common stock at not less than par.

Applicant owns and is engaged in the business of operating and managing a gas and electric plant in the City of San Diego and vicinity. Its business extends over territory of 600 square miles in the county of San Diego, including the cities of San Diego, East San Diego, Coronado, National City, La Mesa, Chula Vista and El Cajon.

In the annual report for the year ending December 31, 1915, the revenues and expenses of applicant's electric department are reported as follows:

<u>LOCALITY</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>NET REVENUES</u>
San Diego	\$813,132.84	\$300,855.39	\$512,277.45
National City	14,525.25	7,808.91	6,716.34
La Mesa	5,073.36	6,746.14	1,672.78*
El Cajon	3,481.24	4,485.20	1,003.96*
East San Diego	17,358.97	11,933.20	5,425.77
Chula Vista	8,161.26	5,659.85	2,501.41
Territory outside incorporated cities	<u>63,260.64</u>	<u>35,331.95</u>	<u>27,928.69</u>
Total	924,993.56	372,820.64	552,172.92

*Loss

The revenues and expenses of the gas department for the year ending December 31, 1915, are reported as follows:

<u>LOCALITY</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>NET REVENUES</u>
San Diego	\$528,649.00	\$315,874.91	\$212,774.09
National City	14,629.76	11,341.64	3,288.22
La Mesa	6,374.98	8,139.37	1,764.39*
East San Diego	20,631.30	19,309.64	1,321.66
Coronado	30,936.39	16,762.79	14,173.60
Chula Vista	7,437.68	6,605.18	832.50
Territory outside incorporated cities	<u>16,816.94</u>	<u>16,031.85</u>	<u>785.09</u>
Total -	\$625,476.05	\$394,065.28	\$231,410.77

*Loss

Applicant's electric generating plant has a capacity of 12,470 K. W.

The following table is indicative of the growth of applicant's electric business:

Year	: Current : : Generated : : K.W.H. :	: Current : : Sold : : K.W.H. :	: Loss : : K.W.H. :	: No. of : Consumers :
Year ending Dec.31,1913:	18,931,466;	13,009,713;	5,921,753;	17,199
Year ending Dec.31,1914:	20,847,915;	16,000,401;	4,847,514;	18,600
Year ending Dec.31,1915:	27,114,691;	20,144,781;	6,969,910;	19,028

Applicant's gas plant has a generating capacity of 4,875,000 cubic feet per 24 hours. Its storage holders have a capacity of 2,650,000 cubic feet. On December 31, 1915, the company owned 224.02 miles of high pressure mains and 219.47 miles of low pressure mains. The extent of applicant's gas business is indicated by the following table:

Year	: Cubic Feet : : Generated:	: Cubic Feet : : Sold :	:Cubic Feet : : Loss :	: No. of : Consumers :
Year ending Dec.31,1913:	733,293,000:	605,779,400:	127,513,600:	20,348
Year ending Dec.31,1914:	760,641,000:	617,917,700:	142,136,300:	21,466
Year ending Dec.31,1915:	783,184,000:	655,902,400:	127,281,600:	21,462

Applicant has reported revenues and expenses to this Commission for the years ending December 31, 1913, 1914 and 1915 as follows:

I T E M	1915	1914	1913
Operating Revenues	\$1,550,469.61	\$1,383,138.10	\$1,326,358.56
Operating Expenses including depreciation	<u>896,885.92</u>	<u>829,233.17</u>	<u>794,600.95</u>
Net Operating Revenues	663,583.69	553,904.93	531,757.61
Non Operating Revenue	<u>739.99</u>	<u>705.58</u>	<u>1,383.13</u>
Gross Corporate Income	664,323.68	554,610.51	533,140.74
Deductions from Gross Corporate Income:			
Interest on Funded Debt	230,706.98	213,140.71	189,460.28
Other Interest Deductions	8,390.67	22,132.38	33,669.00
Amortization of Debt			
Discount and Expense	18,743.61	17,539.41	8,973.54
Uncollectable Bills	<u>6,630.27</u>	<u>5,638.64</u>	<u>6,363.91</u>
Total Deductions	264,471.53	258,451.14	238,466.73
Profit from Operations	399,852.15	296,159.37	294,674.01

The additions to and deductions from the corporate surplus account are shown by the following table:

	<u>1915</u>	<u>1914</u>	<u>1913</u>
Balance beginning of Year	\$ 40,198.88	\$ 15,877.77	\$ 21,751.32
Additions during year:			
Profit from Plant Operation	399,852.15	296,159.37	294,674.01
Miscellaneous	<u>1,176.53</u>	<u>161.74</u>	<u>---</u>
Total Surplus before Making any deductions,	441,226.56	312,198.88	316,425.33
Deductions for Year:			
Dividends on Out- standing stock	291,500.00	271,500.00	237,562.50
Miscellaneous	45,579.70	500.00	62,985.06
Total Deductions	<u>337,079.70</u>	<u>272,000.00</u>	<u>300,547.56</u>
Balance end of Year	104,146.86	40,198.88	15,877.77

On February 29, 1916, applicant reported assets and liabilities as follows:

ASSETS:

Plant and Franchise	\$1,980,454.94
Organization	22,319.61
Fixed Capital	5,477,399.99
Electric Department...\$3,116,022.16	
Gas Department	2,361,377.83
Cash.....	48,493.86
Bond Interest Deposited.....	106,650.00
Other Deposits.....	150.00
Notes Receivable.....	5,115.72
Accounts Receivable.....	120,865.17
Materials and Supplies.....	90,834.55
Prepaid Expenses.....	2,856.84
Unamortized Discount.....	711,626.04
Stock.....\$326,600.00	
Bonds.....	385,026.04
Other Suspense.....	<u>71,987.69</u>
TOTAL ASSETS.....	\$8,638,754.41

LIABILITIES:

Stock Outstanding (Common).....	2,955,000.00
First Mortgage Bonds.....	4,266,000.00
Ten Year Debentures (Due December 1,1922)..	356,000.00
Notes Payable.....	30,000.00
Accounts Payable.....	224,871.30
Accounts with system corporation,	102,584.82
Audited Vouchers and Wages Unpaid,	90,509.11
Consumers' Deposits.....	31,348.03
Miscellaneous Accounts Payable...	<u>429.34</u>
Interest Accrued.....	111,990.00
Taxes Accrued.....	20,039.26
Reserve for Accrued Depreciation.....	518,408.66
Premium on Capital Stock.....	24,000.00
Corporate Surplus Unappropriated.....	<u>132,445.19</u>
TOTAL LIABILITIES.....	\$8,638,754.41

From April 1, 1912 to February 29, 1915,
applicant reports expenditures for extensions,
additions and betterments in the sum of\$2,086,925.78

During the same period, applicant
was reimbursed in the following amounts:

Proceeds from sale of \$1,091,000 face value of bonds.....	982,555.00
Proceeds from sale of \$356,000 face value of debentures.....	333,200.00
Proceeds from sale of \$240,000 par value of common stock.....	264,000.00
Depreciation reserve invested in property.....	<u>333,783.36</u>
Total	<u>\$1,913,538.36</u>

Difference between construction expenditures and
proceeds from sale of securities and depreci-
ation reserve re-invested in property.....173,587.42

The accumulated surplus of \$132,445.19, herein-
before set forth is reported by applicant to have been
reinvested in extensions, additions and betterments.

Applicant has an authorized capital stock issue
of \$5,500,000.00 divided into 55,000 shares of the par
value of \$100.00 each. Of said stock, \$500,000.00 par
value is preferred and \$3,000,000.00 par value is common
stock. Of the common stock, \$2,955,000.00 is outstanding.
None of the preferred stock is outstanding at this time.

On April 6, 1905, San Diego Consolidated Gas
and Electric Company had an authorized stock issue of
\$1,500,000.00 divided into 15,000 shares of the par value
of \$100.00 each. In 1909, the articles of incorporation
were amended and the authorized capital stock was increased

from \$1,500,000.00 to \$3,500,000.00 divided into 35,000 shares of the par value of \$100.00 each. Of said stock, 10,000 shares were common and 25,000 shares preferred. In March 1912, the articles of incorporation were again amended so as to provide for an authorized stock issue of \$3,500,000.00 divided into \$3,000,000.00 of common and \$500,000.00 of preferred stock. Applicant now proposes to amend its articles of incorporation again so as to increase its authorized capital stock from \$3,500,000.00 to \$6,000,000.00 divided into 60,000 shares of the par value of \$100 each. The stock is to be divided into 40,000 shares of common and 20,000 shares of preferred stock.

The preferred stock which applicant desires to issue will bear 7% cumulative dividends payable quarterly on the first days of July, October, January and April of each year. The preferred stock has a preference both as to dividends and assets. Upon giving 60 days notice, the company may at its discretion redeem the preferred stock at \$110.00 per share plus accumulated dividends. This option the company exercised in 1912 when it called in and redeemed \$1,800,000 par value of preferred stock then outstanding at 110 per cent of its par value. (Volume 2, Opinions and Orders of the Railroad Commission of California, page 264, 267).

According to letter of March 30, 1916 from applicant, on file herein, applicant retired its \$1,800,000 par value of preferred stock in 1912 for the following reasons:

"It was not possible at that time for the Company to finance itself by the local sale of its securities, as had become apparent from repeated efforts. The market for its securities had accordingly to be found in eastern investment centers. It was found that the stock could not be marketed there to advantage on account of the stringent inheritance tax law of California and the stockholders' liability law of California, as to both of which there was considerable apprehension on the part of investors. There were constant complaints from investors regarding both of these laws and it seemed likely that unless the stock was constantly strongly supported, there would be a great deal of it thrown on the market; thus breaking the price and inevitably affecting the price of other securities of the Company. A great deal of this stock was held by investors who feared that if it became a part of their estates, it would not be a desirable investment, because of the stockholders' liability and assessment provisions of the California Law, and further because its transfer in case of the death of the owner, would be subject to taxation under the inheritance tax law. For these reasons the Standard Gas & Electric Company, which holds all the common stock of this Company, decided that it would be best to retire the preferred stock and to itself purchase additional common stock as needed, financing such purchase by the sale of its own preferred stock, which would not be subject to any of the objections mentioned."

As stated heretofore, applicant now proposes to issue \$144,000 par value of preferred stock. Since retiring the former issue, applicant has become convinced of the possibility of selling its preferred stock locally. The management of this corporation is of the opinion that it will be advantageous for the company to interest people of San Diego in the utility by the sale to them of its preferred stock.

In said letter of March 30, 1916, applicant further says:

"You have expressed a fear that the institution of the sale of preferred stock by us might lead to a discontinuance of common stock financing. The Standard Gas & Electric Company owns all of the common stock of this Company and is willing to purchase additional common stock as required for junior financing

"purposes in the future, although it will naturally base the price which it will pay upon the dividend rate."

Applicant desires to use part of the proceeds
obtained from the issue of its ^{preferred} stock at par to pay the following promissory notes:

- (1)- Promissory note dated November 1, 1915, payable to Melville Klauber on May 1, 1916.....\$20,000.00
 - (2)- Promissory note dated November 15, 1915, payable to First National Bank, Lisbon, N.D., on May 15, 1916..... 2,500.00
 - (3)- Promissory note dated November 15, 1915, payable to First National Bank, Lisbon, N.D. on May 15, 1916..... 7,500.00
- Total..... \$30,000.00

The remaining \$114,000. applicant desires to use to reimburse its treasury for moneys expended out of income to pay for the cost of extensions, additions and betterments. I understand that it is applicant's intention to use the proceeds from the sale of said \$114,000.00 of preferred stock for the purpose of further capital expenditures and not for the declaration of a dividend. It is thus unnecessary at this time to comment on applicant's dividend policy referred to in Decision No. 1939 (Volume 5, Opinions and Orders of the Railroad Commission of California, page 724).

I recommend that the application be granted and submit herewith 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 \$144,000.00

par value of 7% preferred stock, and a public hearing having been held and it appearing that the purposes for which said stock is 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 \$144,000.00 par value of 7% preferred stock, on the following conditions and not otherwise:

1 - San Diego Consolidated Gas and Electric Company shall sell preferred stock herein authorized to be issued at not less than the par value thereof.

2 - The proceeds from the sale of said preferred stock shall be used only for the following purposes:

(1). - To pay promissory notes as follows:

(a).	Promissory note dated November 1, 1915 payable to Melville Klauber	\$20,000.00
(b).	Promissory note dated November 15, 1915 payable to First National Bank of Lisbon, N.D.	2,500.00
(c).	Promissory note dated November 15, 1915 payable to First National Bank of Lisbon, N.D.	7,500.00

(2). - To reimburse the treasury for moneys expended to pay for cost of extensions, additions and betterments.....114,000.00

Total.....\$144,000.00

3 - The proceeds from the sale of said preferred stock of the par value of \$144,000.00 issued to reimburse applicant's treasury shall be used only to pay for proper capital

expenditures hereafter authorized by this Commission by supplemental order or orders herein.

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 preferred stock hereby authorized to be issued and on or before the 25th day of each month the company shall make a verified report to the Commission stating the sale or sales of said stock during the previous 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 - The authority herein given to issue preferred stock shall apply only to preferred stock issued on or before December 31, 1916.

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 24th day of April, 1916.

Max Thelen
H. Loveland
H. Gordon

Commissioners.