

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of
SAN DIEGO CONSOLIDATED GAS AND ELECTRIC
COMPANY for an order authorizing the
issue of 3148 shares of its common
capital stock.

Application No. 591.

Decision No. 785
ORIGINAL

Frederic W. Stearns for applicant.

THELEN, Commissioner.

O P I N I O N

This is an application of the San Diego Consolidated Gas and Electric Company for an order of this Commission authorizing the issue of 3148 shares of applicant's common capital stock, at par. At the hearing the application was amended so as to ask authority to issue 2850 shares of capital stock of the par value of \$285,000, these shares being the total remaining unissued shares of applicant's capital stock.

The purpose for which it is desired to issue the stock appears from the following language in the application:

"That since the first day of March, 1909, the date of the first mortgage bonds of your petitioner, there have been issued and sold by your petitioner \$3,629,000 par value of said bonds. That none of said bonds were sold at par but the same were sold at various prices ranging from 91 to 95 and that only \$129,000 par value of said bonds were sold at 95. That by reason of the fact that your petitioner was unable to sell said bonds at par it has been obliged to provide from other sources the amount of the difference between the par value of its bonds and the amount realized from the sale of said bonds, which discount amounted on April 30, 1913, to \$314,809.04. That all of said sum of \$314,809.04 represents money actually expended by your petitioner in permanent extensions, improvements and additions to its plant, property and facilities made by it in order to enable it to furnish the service in the communities and territories wherein it is operating which it is required by law to furnish. That all of said sum has been so expended by your petitioner either out of its income or out of money borrowed by it and for which it is entitled under the customary practice in such cases, as your petitioner is advised and believes, to be reimbursed by the issuance of either stock or bonds. That under the terms of the trust indenture securing its said bonds it cannot issue bonds for the purpose of so reimbursing itself. That in order to enable your petitioner to meet and pay its said indebtedness as the same becomes due and payable, it is necessary that your petitioner issue and sell its common stock for the purpose of reimbursing itself for the moneys so expended

as aforesaid. That your petitioner is advised and believes that it can sell such common stock at par, and that if authorized to issue and sell 3148 shares of its said common stock it can realize therefor the sum of \$314,800, which sum can at once be applied to the further reduction of its said indebtedness."

The petition then continues as follows:

"That your petitioner is carrying on its books a bond discount account, which said account your petitioner, if allowed to issue such common stock to be sold and applied upon its said indebtedness, can wipe out and discharge out of its income in equal annual installments extending over the remaining life of its said bonds."

If this application be regarded as an application for authority to issue capital stock for the difference between the face value of the bonds which applicant has received from its trustee and the amount for which those bonds have been sold, it is, in effect, an application for authority to capitalize bond discount, and if the application rests on this theory alone, it must be denied, for the reason that neither bond nor stock discount can be capitalized. Such discount must be amortized over a period of years out of earnings. The applicant itself, in effect, admits the correctness of this principle by its allegation that it is carrying on its books a bond discount account, which account it will wipe out and discharge out of its income if authorized to issue the common stock for which application is made. Under this Commission's accounting rules it is the duty of the applicant to wipe out this bond discount out of its earnings, entirely irrespective of whether applicant is authorized to issue its common stock, in accordance with this application.

Thinking that perhaps the facts might warrant an authorization to issue this stock on some other ground, the Commission suggested that applicant file a statement showing the total amount of money spent for construction from the date of the purchase of the property and also a statement of the par or face value of stocks and bonds which have been issued since said time, and of the proceeds derived from the sale thereof. The Commission thought that possibly there might be a margin between the amount of money expended for construction during this period and the stock and bonds which have been issued during the same period. This statement has now been filed

and contains, among others, the following items:

Total amount of money spent for construction from the date of purchase of the property to April 30, 1913.....	\$4,403,529.39
Face value bonds issued,.....	\$2,567,000
Face " " authorized, Application No. 591.....	130,000
Face value debentures authorized, Application No. 344.....	106,000
Par value stock sold,.....	1,522,600
Total par or face value securities,....	\$4,375,600.00
Receipts from sale of securities,.....	\$3,980,150
Depreciation and renewal fund expended	177,750
Total,.....	\$4,157,900.00

Applicant also claims the right to issue capital stock against redemption premium of \$180,000 which it paid to redeem the outstanding preferred stock. The Commission, however, cannot authorize this to be done, in view of the fact that it is desired to capitalize a premium on stock. If a comparison be instituted between the total amount of money spent for construction since the purchase of the property and the face or par value of stocks and bonds issued during the same period, it will be found that the sums are almost the same. If the comparison be made between the total amount of money spent for construction and the proceeds from the sale of securities, together with the depreciation and renewal funds, it will be found that there is a difference in favor of the amount expended for construction amounting to \$245,629.39. In passing on the question whether any amount of stock should be authorized in a case in which it is not the intention to devote any of the proceeds thereof to adding to the property, it should be borne in mind, as pointed out in this Commission's decision No. 491 on Application No. 344, that during the year 1912, applicant declared a special dividend of \$255,600 in addition to the regular dividend of 7% on its entire outstanding capital stock. While it is true that this dividend

is alleged to cover the surplus of several years, it is equally true that if the preferred stock had not been called in an additional special dividend for the year amounting to more than 27% could have been declared. If these moneys had not been paid out in the shape of special dividends to the chief creditors of the applicant, which creditors are also the owners of the applicant's capital stock, it would not now be necessary to come before this Commission and ask for an authorization to issue capital stock. It should be remembered, also, that if the capital stock of the face value of ^{\$285,000} \$2,850,00^{m.} is now authorized, applicant will expect to pay thereon its usual dividend of 7% on all the capital stock amounting to the added sum of \$19,950.00 per year. We desire to point out also, that on the basis of the regular dividend paid last year and on the proportion of the extra dividend chargeable to the year 1912, applicant's stock is worth considerably more than par. This statement is made on the basis of dividends paid and not on the basis of excess of property over bonded and other indebtedness. It should be distinctly borne in mind that applicant is not asking authority to issue capital stock for the purpose of securing money which it will then use to extend its plant. It desires to issue this capital stock so that it may pay a portion of its indebtedness, which indebtedness is owing chiefly to the Standard Gas and Electric Company, which owns its capital stock and which, in the year 1912, received the extra dividend of \$255,600 hereinbefore referred to. If this were an application to issue capital stock for the purpose of securing proceeds with which to pay for betterments and improvements which the applicant expects hereafter to make and to take care of the 25% on each dollar's worth of improvements for which applicant cannot receive bonds from its trustee, an entirely different matter would be presented for the consideration of this Commission. In such event, the Commission would be inclined to authorize the issue of the stock.

If applicant would use its large earnings, running even in excess of 7% on its common ~~and~~ capital stock, to pay the Standard Gas and

Electric Company, which owns its capital stock, and E. M. Byllesby and Company, which controls the Standard Gas and Electric Company, and which two companies are its chief creditors, it would not be necessary to make application for the issue of stocks or bonds to meet its outstanding indebtedness.

I recommend that the application be denied and submit herewith the following form of order:

O R D E R.

SAN DIEGO CONSOLIDATED GAS AND ELECTRIC COMPANY having applied to this Commission for authority to issue its common capital stock of the par value of \$2,850,000, and a public hearing having been held on said application, and the Commission finding that public convenience and necessity does not warrant the grant of said application,

IT IS HEREBY ORDERED that said application be and the same is hereby dismissed.

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 16th day of July, 1913.

John W. Estleman

Ed. G. ...

Max. Thelen

Commissioners.