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ORIGINAL

Decision No. 8786

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 SAN DIEGO CONSOLIDATED GAS AND ELEC-  
 TRIC COMPANY for an order authorizing  
 it to create a bonded indebtedness in  
 the authorized sum of \$50,000,000., to  
 enter into a mortgage or deed of trust  
 for the purpose of securing the same,  
 to issue and sell bonds of said indebt-  
 edness, when created, of the par value  
 of \$2,750,000., and to issue and sell  
 preferred stock of the par value of  
 \$325,000.; and, further,

Application Number 6744

In the Matter of the Application of  
 SAN DIEGO GAS AND ELECTRIC COMPANY  
 to issue stock of the par value of  
 \$300. and to execute the above mentioned  
 mortgage or deed of trust jointly with  
 San Diego Consolidated Gas and Electric  
 Company, and to execute a lease of all  
 its property to San Diego Consolidated  
 Gas and Electric Company.

Chickering and Gregory;  
 Sweet, Stearns and Forward;  
 Cummins, Roemer and Flynn, by

Allen Chickering, for Applicant.

LOVELAND, COMMISSIONER:

O P I N I O N

SAN DIEGO CONSOLIDATED GAS AND ELECTRIC COMPANY asks per-  
 mission to issue and sell \$2,750,000.00 of its first and refunding  
 mortgage 6% gold bonds, and \$325,000. of its 7% cumulative pre-  
 ferred stock.

SAN DIEGO GAS AND ELECTRIC COMPANY, a new corporation,  
 asks permission to issue \$300.00 (3 shares) of stock and lease  
 its properties for a nominal consideration to San Diego Consoli-  
 dated Gas and Electric Company.

Both applicants ask permission to mortgage their properties to secure the payment of the first and refunding mortgage bonds of San Diego <sup>Consolidated</sup> Gas and Electric Company. The Commission is also asked to approve the plan of financing set forth in the application.

San Diego Gas and Electric Company, recently organized, has acquired the power plant in the City of San Diego formerly owned by San Diego Electric Railway Company. The company has but \$300. (3 shares) of stock outstanding. This stock has been issued and is held by F. W. Stearns, Stephen Connell and Richard M. Kew. The stock which the company asks permission to issue will be issued in lieu of the three shares heretofore issued. Any stock which the San Diego Gas and Electric Company may issue will be acquired by San Diego Consolidated Gas and Electric Company. The latter company intends to lease from the San Diego Gas and Electric Company at a nominal rental the power plant to which reference has been made. It appears that this power plant was acquired by the San Diego Gas and Electric Company, rather than by the San Diego Consolidated Gas and Electric Company, xxx in order that the first and refunding mortgage which applicants intend to execute, may be a first lien on some properties.

San Diego Consolidated Gas and Electric Company on December 31, 1920 reported \$1,470,200. of its 7% preferred and \$2,972,100. of its common stock outstanding. The interest bearing funded debt of the company outstanding on December 31, 1920 is reported at \$6,094,000. and consists of \$4,705,000. of first mortgage 5% bonds due March 1, 1939, \$829,000. of 6% debentures due December 1, 1922, and \$560,000. of collateral trust 6% gold notes due July 1, 1925. In addition, the company has deposited as collateral to secure the payment of the gold notes, \$688,000. of its first mortgage bonds. The other indebtedness of the company is reported at \$555,011.79 and consists of \$337,169.07 of notes payable, \$210,504.61 of accounts

payable, and \$7,638.11 due the Standard Gas and Electric Company.

Applicant estimates its net expenditures for additions and betterments during 1921 at \$1,700,000. This estimated net expenditure is summarized as follows:-

Gas production department . . . . .	\$315,000.00
Gas distribution department . . . . .	285,000.00
Electric production department . . . . .	460,000.00
Electric transmission and distribution department . . . . .	520,000.00
General structures and equipment . . . . .	120,000.00
	<hr/>
TOTAL . . . . .	<u>\$1,700,000.00</u>

A more detailed segregation of the estimated construction expenditures is reported in Schedule No. 4 attached to the petition.

The first mortgage of San Diego Consolidated Gas and Electric Company secures the payment of an authorized issue of \$6,000,000. of 5% bonds due March 1, 1939. The record in this proceeding shows that \$5,130,000. of the bonds have been issued and are outstanding, and that \$688,000. of the bonds are deposited as collateral to secure the payment of \$500,000. of 6% notes due in 1923. There are thus available at this time only \$182,000. of first mortgage bonds to finance construction expenditures.

To provide for its future needs, it has become necessary for San Diego Consolidated Gas and Electric Company to create a new bonded indebtedness. It proposes to create such an indebtedness in the sum of \$60,000,000. and to secure the payment of the same by a mortgage or deed of trust to be executed jointly by applicants herein. The new mortgage will be a first lien on the property of San Diego Gas and Electric Company, and a second lien on the property of San Diego Consolidated Gas and Electric Company. The latter company will assume all the obligations of the former company.

The mortgage is to provide for the issue of bonds in series, bearing such rates of interest as may from time to time be deemed

desirable by the Board of Directors of San Diego Consolidated Gas and Electric Company. The first series of bonds proposed to be issued will be in the sum of \$2,750,000.00 face value, bear 6% interest and mature March 1, 1939. These bonds are to be redeemable on any interest payment date prior to maturity at 105% of par, and accrued interest, on and prior to March 1, 1926; thereafter at 104% of par, and accrued interest, on and prior to March 1, 1929; thereafter at 103% of par, and accrued interest, on and prior to March 1, 1932; thereafter at 102% of par, and accrued interest, on and prior to March 1, 1935; and thereafter at 101% of par and accrued interest, on and prior to September 1, 1938. The new mortgage is to contain a sinking fund provision and further provide that after the \$2,750,000.00 of bonds have been issued under the mortgage additional bonds may be issued in an amount equal to 75% of the cost of construction, betterments and additions to the plant, system and equipment of applicants when their net earnings are at least equal to one and three quarters times the annual bond interest charged on all bonds then outstanding and on those sought to be issued. There has not yet been filed by applicants a copy of the proposed mortgage. The Commission cannot make a final order in this proceeding until it has been furnished with a copy of the proposed mortgage, nor can it at this time, on account of the incomplete record, make an order approving the financial plan as outlined in this application. The plan will be approved only to the extent that affirmative authorization is granted in the order following.

San Diego Consolidated Gas and Electric Company asks permission to issue and sell the \$2,750,000.00 of first and refunding 6% bonds at not less than 81% of their face value, and accrued interest.

It has a verbal agreement with the bankers under the terms of which the bankers are to receive a commission of six points, and the selling price to vary with market conditions, such selling price, however, not to be less than \$1, and accrued interest.

Pending the delivery of the bonds, San Diego Consolidated Gas and Electric Company asks permission to issue and sell interim certificates. All moneys received from the sale of the certificates will be deposited with the Harris Trust and Savings Bank, trustee. If the bonds are not delivered on or before a certain date, the purchasers of the certificates will have their payments returned upon the surrender of the certificates.

San Diego Consolidated Gas and Electric Company also asks permission to issue and sell \$525,000.00 of its 7% cumulative preferred stock at not less than \$95.00 per share. E.H. Jones, the company's president, testified that extensive advertising will have to be undertaken to sell the stock and that the company may not be able to realize more than \$95.00 per share net. This Commission expects the company to secure the highest possible price for the stock and keep the selling expenses at a minimum. The expenses including commissions and advertising should not exceed five dollars per share,

San Diego Consolidated Gas and Electric Company has \$839,000. of debentures, due December 1, 1922, outstanding. The company intends to redeem the debentures, which are callable at 101, and accrued interest. It appears that the company intends to use \$839,000.00 of the \$2,750,000.00 of bonds to redeem the debentures. It is, of course, understood that both the unamortized discount and expense and the premium paid to redeem the debentures are charges against the company's fair return or surplus. No part of the proceeds from the sale of the bonds or stock may be used to pay or meet those charges.

San Diego Consolidated Gas and Electric Company has submitted a statement in which its uncapitalized expenditures for additions and betterments as of March 31, 1921 are reported at \$556,079.51. The following tabulation shows the method used in arriving at the \$556,079.51.

Uncapitalized balance; Dec. 31, 1919 . . . . .	\$114,212.91	
New construction 1920 . . . . .	\$682,124.49	
New construction, 3 mos. 1921	<u>223,924.53</u>	<u>906,049.02</u>
		1,020,261.93
San Diego Gas and Electric Company . . . . .		<u>1,175,457.58</u>
		\$2,195,719.51
Against which has been issued;		
Under Decision No. 7568		
5,000 shares preferred stock at 96-480,000.		
558 shares common stock at par 55,800.		
Under Decision No. 8445		
6,000 shares preferred stock at par 600,000.		
40 shares " " at 96 3,840.		
500 first mortgage bonds at par <u>500,000.</u>		
		<u>1,639,640.00</u>
Balance uncapitalized March 31, 1921 . . . . .		\$556,079.51

As said above, applicants estimated their net construction expenditures during 1921 at \$1,700,000.00. Deducting from the \$1,700,000.00 the actual expenditures, \$223,924.53, during the first three months of 1921, leaves a balance of \$1,476,075.47 which, added to the reported uncapitalized expenditures of \$556,079.51 makes a total of \$2,032,154.98. Adding the \$839,000. of debentures to be redeemed, to the \$2,032,154.98, makes a grand total of \$2,871,154.98 for the financing of which it is proposed to issue and sell \$2,750,000. of 6% bonds at not less than 81 and accrued interest, and \$620,000. of 7% preferred stock at not less than \$95.00 per share.

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I herewith submit the following form of order:-

O R D E R

SAN DIEGO CONSOLIDATED GAS AND ELECTRIC COMPANY, and SAN DIEGO GAS AND ELECTRIC COMPANY, having asked permission to execute a mortgage or deed of trust, and the former company having asked permission to issue \$2,750,000.00 of 6% first and refunding bonds due March 1, 1939, or a like amount of interim certificates and \$325,000.00 of 7% cumulative preferred stock, and the latter company having asked permission to lease its properties and issue \$500.00 of common stock; a public hearing having been held 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 by applicants and that the expenditures herein authorized are not reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED, that San Diego Gas and Electric Company be, and it is hereby, authorized to issue at par \$500.00 of common stock in exchange for \$500.00 of stock now outstanding, and to lease, for a nominal rental, all of its properties, referred to in this application, to San Diego Consolidated Gas and Electric Company;

IT IS HEREBY FURTHER ORDERED, that San Diego Consolidated Gas and Electric Company be, and it is hereby, authorized to issue and sell at not less than \$95.00 per share, \$325,000.00 of its 7% cumulative preferred stock;

IT IS HEREBY FURTHER ORDERED, that San Diego Consolidated Gas and Electric Company be, and it is hereby, authorized to issue and sell at not less than 81% of their face value, and accrued interest, \$2,750,000.00 of 6% first and refunding bonds due March 1, 1939, or a like amount of interim certificates exchangeable for said first and refunding bonds, said interim certificates to be sold for not

less than 81% of their face value, and accrued interest, provided that none of the first and refunding bonds be issued and delivered until the Commission by supplemental order, has authorized the execution of a mortgage or deed of trust securing the payment of the bonds, and provided further that, pending the delivery of the bonds, all proceeds obtained from the sale of the interim certificates be deposited with a bank or banks, or a trust company or trust companies, or be invested in United States Government securities, such deposit or investment being made with the understanding that the proceeds will be returned to the purchasers of the certificates in the event that the company is unable to deliver bonds in exchange for the certificates, within the time limit specified in the certificates.

The authority herein granted is subject to further conditions as follows:-

1. The proceeds realized from the sale of the stock herein authorized may be used by San Diego Consolidated Gas and Electric Company to pay in part the \$869,000. of debentures, or to finance in part the expenditures incurred for additions and betterments up to March 31, 1921, or for such other purposes as the Commission may hereafter authorize.
2. The proceeds realized from the sale of the bonds may be used by applicants only for such purposes as the Commission may hereafter authorize.
3. The authority herein granted will not become effective until San Diego Consolidated Gas and Electric Company has paid the fee prescribed by the Public Utilities Act.
4. Applicants shall keep such record of the issue and sale of the stock, bonds and interim certificates herein authorized, and of the disposition of the proceeds as will enable them to file on or before the 25th day of each month, a verified report, as required by this Commission's General Order No. 24, which order in so far as applicable,

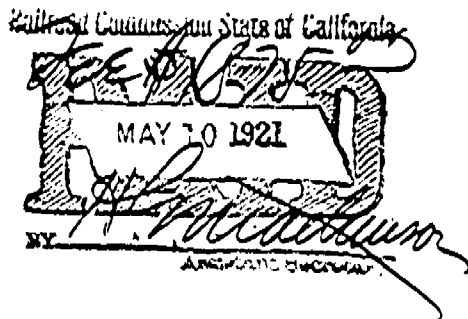


is made a part of this order.

5. The authority herein granted will apply only to such stock, bonds and interim certificates, as may be issued, sold and delivered on or before November 15, 1921.
6. Applicants plan of financing and the plan set forth in this application are authorized to the extent indicated in this order, such authorization, however, being limited to the extent that affirmative authorization is herein given.
7. San Diego Gas and Electric Company shall file with the Commission a copy of the lease which it is herein authorized to execute.

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 9<sup>th</sup> day of May, 1921.



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Commissioners.