

Decision No. 31328

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the
PACIFIC GAS AND ELECTRIC COMPANY
for an order of the Railroad Commission
authorizing applicant to acquire and hold
additional shares of the preferred capital
stock of San Joaquin Light and Power Cor-
poration and for said purpose to issue
shares of applicant's preferred capital
stock in the manner in this petition set
forth.

ORIGINAL

Application No. 22155

Wm. B. Bosley and R. W. DuVal,
for applicant.

WHITSELL, Commissioner.

O P I N I O N

In this application the Railroad Commission is asked to enter its order authorizing the Pacific Gas and Electric Company to acquire on or before December 31, 1938 from the holders thereof \$3,484,900.00 par value of preferred stocks of the San Joaquin Light and Power Corporation and issue in exchange therefor \$3,484,900.00 of its preferred stocks as appears in more detail hereinafter. The Commission is also asked to hold a public hearing upon the fairness of the terms and conditions of the exchange of said stocks and expressly approve said terms and conditions.

A public hearing, after due notice thereof, was held on this application.

It is of record that the San Joaquin Light and Power Corporation as of June 30, 1938 had an authorized stock issue and stock outstanding as follows:-

<u>Class of Stock</u>	<u>Par Value per Share</u>	<u>No. of Shares Authorized</u>	<u>No. of Shares Outstanding</u>
Prior preferred, 7%	\$100.	250,000	116,932
Prior preferred-Series A, 6%	100.	500,000	25,536
Preferred-Series A, 7%	100.	185,000	63,934
Preferred-Series B, 6%	100.	65,000	316
Common stock	100.	500,000	129,569

The following table shows the number of shares of San Joaquin Light and Power Corporation stock owned by Pacific Gas and Electric Company and the number of shares of that company's stock in the hands of the public as of June 30, 1938:-

<u>Class of Stock</u>	<u>Shares owned by Pacific Gas and Electric Company</u>	<u>Shares outstand- ing in hands of public</u>
Prior preferred, 7%	91,862	25,070
Prior preferred-Series A, 6%	19,668	5,868
Preferred stocks-Series A, 7%	60,309	3,625
Preferred stocks-Series B, 6%	30	286
Common stock	<u>128,867</u>	<u>702</u>
Total.....	<u>300,736</u>	<u>35,551</u>

The Pacific Gas and Electric Company presently owns about 89% of the outstanding stocks of the San Joaquin Light and Power Corporation. As stated, in this application it asks permission to acquire the outstanding preferred stocks now held by the public. It proposes to effect this acquisition through the exchange of its preferred stocks for the preferred stocks of San Joaquin Light and Power Corporation. Pacific Gas and Electric Company has offered to the holders of the 7% prior preferred stock and to the holders of the preferred stock-Series A, 7% of San Joaquin Light and Power Corporation, four shares (par value \$25. per share) of its 6% preferred stock for each share (par value \$100. per share) of said 7% stocks. To the holders of San Joaquin Light and Power Corporation prior preferred-Series A, 6% stock and to the holders of that company's preferred stock-Series B, 6%, it has offered four shares of its 5½% preferred stock.

If all the holders of the 7% preferred stocks of the San Joaquin Light and Power Corporation accept the offer of the Pacific Gas and Electric Company, the latter will be called upon to issue \$2,869,500. par value of its 6% preferred stock, and if all the holders of the 6% preferred stocks of the San Joaquin Light and Power Corporation accept the offer of the Pacific Gas and Electric Company, it will have to issue \$615,400. par value of its 5½% preferred stocks.

In Application No. 22157 now pending before the Commission the San Joaquin Light and Power Corporation asks authority to distribute and transfer to Pacific Gas and Electric Company its plants, properties and other assets in conformity with the provisions of the agreement filed in that proceeding. The articles of incorporation of the San Joaquin Light and Power Corporation provide that in the event of liquidation, dissolution or winding up of the corporation, the holders of the prior preferred and preferred shares shall be entitled to be paid out of the assets the par value of their shares, together with any unpaid dividends thereon. Under this provision, the holders of the preferred stocks who retain their stock until the dissolution of the corporation will receive \$100. per share, together with accrued dividends. Inasmuch as the preferred stocks of the Pacific Gas and Electric Company are selling at more than their par value, the holders of the preferred stocks of San Joaquin Light and Power Corporation will profit by accepting the offer of Pacific Gas and Electric Company.

Several holders of 7% preferred stock of San Joaquin Light and Power Corporation have addressed communications to the Commission, urging that the Pacific Gas and Electric Company be required to offer them its preferred stock on a basis which will yield them the same return as they now realize from the ownership of the 7% preferred stocks of the San Joaquin Light and Power Corporation. Those who acquired San Joaquin Light and Power Corporation preferred stocks, bought the same subject to the provisions of the corporation's articles of incorporation. Those articles, as said, provide that if the corporation is dissolved, the holders of the preferred stocks must be paid \$100. per share and accrued dividends, before any assets may be distributed to the holders of the corporation's common stock. The holders of the preferred stocks occupy a position somewhat similar to the holder of a bond which was issued subject to the condition that the

issuer may redeem the same prior to maturity. The articles of incorporation place the holders of the Stocks on notice that the corporation may be dissolved. Its dissolution I feel is not contrary to public interest. Under the circumstances it occurs to me that the offer made by the Pacific Gas and Electric Company is fair and equitable and, as stated, accords to the holders of the preferred stocks of San Joaquin Light and Power Corporation a larger return than they would realize if they retained their stock until the corporation is dissolved.

I herewith submit the following form of order:-

ORDER

The Pacific Gas and Electric Company having asked permission to issue its preferred stock to holders of preferred stocks of San Joaquin Light and Power Corporation in exchange for said preferred stocks, in the amount and on the basis set forth in the foregoing opinion, a public hearing, after due notice, having been held, and having considered the evidence submitted at such hearing I find that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required by applicant for the purposes herein stated and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income, and that the terms and conditions of the exchange of stock offered by the Pacific Gas and Electric Company to the holders of preferred stock of San Joaquin Light and Power Corporation are fair and reasonable, and that this application should be granted, therefore,

IT IS HEREBY ORDERED as follows:-

1. Pacific Gas and Electric Company may, on or before December 31, 1938, acquire from the holders thereof, \$2,507,000. par value of the 7% prior preferred stock, \$362,500. par value of the 7% preferred stock-Series A, \$586,800. par value of the 6% prior preferred stock-Series A,

and \$28,600. par value of the 6% preferred stock-Series B of the San Joaquin Light and Power Corporation now issued and outstanding in the hands of the public.

2. For the purpose of acquiring the aforesaid stock Pacific Gas and Electric Company may offer to the holders of said stock its 6% preferred and its 5½% preferred stock in accordance with the terms and conditions contained in its offer to exchange stock filed in this proceeding as Exhibit 3, provided that the offer to exchange said stock be extended to and including October 14, 1938.

3. Pacific Gas and Electric Company shall keep such record of the issue and delivery of such stock as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24-A, which order insofar as applicable, is made a part of this order.

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 *Los Angeles*, California, this 3rd day of October, 1938.

Ralph W. Shepard
Leon A. Austin
Frank R. Newell
Ray L. Riley

COMMISSIONERS