

Decision No. 23664

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
COAST COUNTIES GAS AND ELECTRIC COMPANY,  
a corporation, for an order authorizing  
applicant to issue certain shares of  
stock.

ORIGINAL

Application No. 23664

BY THE COMMISSION:

O P I N I O N

Coast Counties Gas and Electric Company asks the Commission to enter its order authorizing applicant to issue not to exceed 150,000 shares of the par value of \$25 per share of its 5% preferred stock for the purposes hereinafter stated, and to authorize applicant to issue 144,300 shares of common stock of the par value of \$25 per share in exchange for 36,200 shares of the par value of \$100 per share now outstanding.

Coast Counties Gas and Electric Company is engaged in the business of distributing natural gas, butane gas, electricity and water as a public utility. For the year ending June 30, 1940 it reports public utility operating revenues of \$3,395,034.30 segregated as follows:

Electric	\$1,660,144.18
Gas	1,635,916.16
Water	48,973.96

For the same period it had a gross income of \$696,735.54. This amount represents the sum available for the payment of interest,

the amortization of debt discount and expense, the payment of dividends on preferred and common stocks, and surplus.

Coast Counties Gas and Electric Company has outstanding \$3,620,000 par value of common stock, \$3,746,300 par value of 6% first preferred stock, \$2,950,000 of 4% first mortgage bonds due September 1, 1965 and a \$200,000 1-3/4% note due December 11, 1940.

The company's balance sheet as of June 30, 1940 shows assets and liabilities as follows:

ASSETS

FIXED ASSETS:

Utility Property Plant and Equipment	\$13,048,338.89
Intangibles and Franchises	132,180.72
Organization Expenses	196,900.69
Construction Work in Progress	<u>155,755.61</u>
Total Fixed Assets	<u>\$13,533,175.91</u>

OTHER PHYSICAL PROPERTY

24,787.34

CURRENT AND ACCRUED ASSETS:

Cash	\$ 220,324.33
Special Deposits	23,576.41
Working Fund	5,075.00
Notes Receivable	307.49
Accounts Receivable-Trade	364,234.33
Accounts Receivable-Other	3,447.25
Receivables from Associated Companies	130.83
Materials and Supplies	218,669.04
Prepaid Taxes	944.08
Prepaid Insurance	4,792.79
Prepaid Expense	<u>369.62</u>
Total Current and Accrued Assets	<u>\$ 841,871.17</u>

DEFERRED DEBITS:

Unamortized Debt Discount and Expense	\$ 268,685.72
Extraordinary Property Losses	141,231.36
Retirement Work in Progress	22,003.86
Other Deferred Debits	<u>8,986.05</u>
Total Deferred Debits	<u>\$ 440,906.99</u>

CAPITAL STOCK DISCOUNT AND EXPENSE:

Discount on Capital Stock, 1st Preferred	\$ 257,233.00
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REACQUIRED SECURITIES:

Reacquired long term Debt	<u>20,000.00</u>
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Total Assets	<u>\$15,117,974.41</u>
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LIABILITIES

CAPITAL STOCK	
First Preferred 6% Cumulative	\$ 3,746,300.00
Common	<u>3,620,000.00</u>
Total Capital Stock	<u>\$ 7,366,300.00</u>
LONG TERM DEBT:	
First Mortgage 4% Series "B" Bonds 1965	\$ 4,000,000.00
Less: Issued but not Sold	<u>1,000,000.00</u>
Total Long Term Debt	<u>\$ 3,000,000.00</u>
CURRENT AND ACCRUED LIABILITIES:	
Notes payable	\$ 200,000.00
Accounts payable	61,626.95
Payable to Associated Companies	41,361.78
Customers' Deposits	33,129.78
Taxes Accrued	163,932.51
Dividends Accrued	9,365.75
Interest Accrued	39,733.33
Other Current and Accrued Liabilities	52,295.46
Accrued Pay roll	<u>20,868.79</u>
Total Current and Accrued Liabilities	<u>\$ 622,314.35</u>
DEFERRED CREDITS:	
Customers' Advances for Construction	\$ 55,301.29
Other Deferred Credits	373.39
Clearing Accounts	<u>1,454.27</u>
Total Deferred Credits	<u>\$ 57,128.95</u>
RESERVES:	
Depreciation	\$ 3,546,332.31
Uncollectible Accounts	11,017.28
Injuries and Damages	35,678.63
Employees' Provident Reserve	<u>32,208.51</u>
Total Reserves	<u>\$ 3,625,236.73</u>
CONTRIBUTION IN AID OF CONSTRUCTION	24,241.21
EARNED SURPLUS	<u>422,753.17</u>
Total Liabilities	<u>\$15,117,974.41</u>

Coast Counties Gas and Electric Company has heretofore, under authorization from this Commission, issued and sold \$3,746,300 par value of its first preferred stock. Its Articles of Incorporation provide that the owners and holders of such stock are and shall be entitled to receive, when and as declared by the Company's Board of Directors, dividends at the rate of 6% per annum

and no more, upon the par value thereof. Such dividends are cumulative and shall be declared and shall be either paid or set apart for payment before any dividends shall be declared or paid upon the company's common stock.

The Articles of Incorporation further provide that any and all of the shares of the first preferred stock may be called for payment and redemption by the company at its option, at any time, on the payment to the owner and holder of the par value thereof plus any accrued dividends. The company has concluded to avail itself of the privilege reserved to it by the Articles of Incorporation and call the 6% first preferred stock for redemption.

To obtain funds to redeem the 6% first preferred stock, applicant asks permission to issue and sell at not less than \$26 per share, \$150,000 of 5% first preferred stock. The company will offer the 5% first preferred stock to the holders of the 6% first preferred stock under two alternative plans as follows:

1. For each share of 6% first preferred stock (\$100 par value) surrendered the stockholder shall receive three (3) shares of 5% preferred stock (\$25 par value) and a sum in cash, which amount will be determined by the public offering price of the new shares (plus the amount of accrued dividends on the 6% first preferred stock); or
2. For each share of 6% first preferred stock (\$100 par value) surrendered and for a sum in cash paid to the company, which amount will be determined by the public offering price of the new shares (less the amount of accrued dividends upon the 6% first preferred stock) the stockholder shall receive four (4) shares of the new 5% first preferred stock (\$25 par value).

The offer need not be accepted by any stockholder.

The shares of the 5% first preferred stock which are not taken by holders of applicant's 6% first preferred stock, will be sold by applicant to underwriters under the terms, conditions and provisions of an underwriting agreement substantially in the form of the agreement filed in this proceeding as Exhibit D. The exact price at which the stock will be sold has not yet been determined. It is dependent upon financial conditions prevailing at the time when the stock is offered for sale.

As compensation to the several underwriters, the company agrees to pay them 37½¢ on each share of 5% first preferred stock issued, except on stock issued in exchange for 1,932 shares of 6% first preferred stock owned by Pacific Public Service Company and new stock issued in exchange for 6% first preferred stock owned by customers of the company. The underwriters shall also be paid 50¢ on each share of the 5% first preferred stock which they purchase.

The net proceeds realized from the issue of the 5% first preferred stock will be used to redeem the 6% first preferred stock and reimburse the applicant's treasury for capital expenditures.

The company will amend its Articles of Incorporation so as to provide for the issue of 437,463 shares of stock having an aggregate par value of \$13,746,300. The total number of shares will be divided and classified as 37,463 shares of first preferred stock having a par value of \$100 each; 200,000 shares of 5% first preferred stock having a par value of \$25 each; and 200,000 of common stock having a par value of \$25 each.

As indicated, the 37,463 shares of first preferred stock having a par value of \$100 each will be redeemed. Shares of common stock in the amount of 144,800 of the par value of \$25 each will be issued in exchange for the 36,200 shares of common stock of \$100 each now outstanding. All of this common stock is owned by the Pacific Public Service Company. The company in its amended Articles of Incorporation reserves the right to redeem the 5% first preferred stock.

The Articles of Incorporation in this respect provide as follows:

"All or any part of the 5% first preferred stock is subject to redemption by said corporation at its option at any time upon not less than thirty (30) days' notice up to and including September 1, 1942, on the payment to the owner and holder thereof of the sum of twenty-eight and fifty hundredths dollars (\$28.50) per share; thereafter up to and including September 1, 1943, on the payment of twenty-eight dollars (\$28) per share; thereafter up to and including September 1, 1944, on the payment of twenty-seven and fifty hundredths dollars (\$27.50) per share; thereafter up to and including September 1, 1945, on the payment of twenty-seven dollars (\$27) per share; thereafter up to and including September 1, 1946, on the payment of twenty-six and fifty hundredths dollars (\$26.50) per share; thereafter up to and including September 1, 1947, on the payment of twenty-six dollars (\$26) per share; thereafter up to and including September 1, 1948, on the payment of twenty-five and fifty hundredths dollars (\$25.50) per share; thereafter on the payment of the par value thereof; together in all cases with accrued and accumulated dividends to the date of redemption on any of said shares of 5% first preferred stock so redeemed."

As indicated in the foregoing balance sheet, Coast Counties Gas and Electric Company has on its books \$257,233 of discount on its 6% first preferred stock. The premium which it will receive from the sale of the 5% first preferred stock it proposes to credit to capital surplus. It will then exhaust the capital surplus by charging to it the said \$257,233 and some

of the expenses incident to the issue of the 5% first preferred stock. The remainder of the expenses it will amortize by charges to earned surplus at the rate of \$37,<sup>500</sup>~~200~~ per annum. This procedure *ITM.* is not in conformity with the system of accounts prescribed by the Commission. Applicant should file with the Commission the reasons why it desires to depart from the instructions contained in said system of accounts and its justification for such departure. Upon the receipt thereof, we will give the matter further consideration.

Applicant is redeeming its 6% first preferred stock because it desires to reduce its annual dividend payments on its preferred stock.

#### O R D E R

The Commission having considered the request of Coast Counties Gas and Electric Company for permission to issue stock and it being of the opinion that this is not a matter on which a hearing is necessary, that the money, property or labor to be procured or paid for by the issue of the stock herein authorized, is reasonably required for the purposes herein indicated, that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application should be granted as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. Coast Counties Gas and Electric Company may, after the effective date hereof and on or before December 31, 1940, issue 144,800 shares of its common capital stock of the par value of \$25 per share in exchange for 36,200 shares of common stock

of the par value of \$100 per share now outstanding, the basis of exchange being four shares of the new stock for one share of the stock now outstanding.

2. Coast Counties Gas and Electric Company may, after the effective date hereof and prior to December 31, 1940, issue and sell at not less than \$26 per share, 150,000 shares of its 5% first preferred stock for the purpose of redeeming or refunding its outstanding 6% first preferred stock and reimbursing its treasury on account of income expended for capital expenditures, said 5% first preferred stock may be sold to the holders of 6% first preferred stock or sold to underwriters under the terms and conditions set forth in the foregoing opinion.

3. The authority granted by this order will become effective when Coast Counties Gas and Electric Company has filed with the Railroad Commission a certified copy of its amended Articles of Incorporation providing for the issue of the shares of stock authorized, a complete copy of the registration statement filed with the Securities and Exchange Commission and a copy of the underwriting agreement as executed.

4. Coast Counties Gas and Electric Company shall keep such record of the issue, sale and delivery of the shares of stock herein authorized and of the disposition of the proceeds 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.



Dated at San Francisco, California, this 13<sup>th</sup> day of  
September, 1940.

Carl L. Perry  
Frank R. Decker  
Raymond W. ...  
J. ...  
Justin F. ...  
Commissioners.