

Decision No. 34743

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
SAN DIEGO GAS & ELECTRIC COMPANY, a  
corporation, for authority to issue  
and sell 246,750 shares of its Com-  
mon Stock, \$10 par value

Application No. 24557

BY THE COMMISSION:

OPINION

In this proceeding, the Commission is asked to make its order authorizing San Diego Gas & Electric Company to issue and sell 246,750 shares of its common stock of the par value of \$10 a share, at and for a price to net applicant not less than \$10 a share, after payment of underwriting commissions, and to use the proceeds derived from the sale thereof, first, to reimburse its treasury for construction expenditures heretofore made, and thereafter for general corporate purposes, including meeting the cost, in part, of construction expenditures made and to be made.

San Diego Gas & Electric Company reports its outstanding bonds, stock, premium on preferred stock, and its accumulated surplus, as of September 30, 1941, as follows:

Bonds - First Mortgage bonds, 3-3/8%, due 1970		\$16,000,000.00
Cumulative preferred stock - 5%:		
Par value	\$ 7,500,000.00	
Premium	<u>196,218.75</u>	7,696,218.75
Common stock and surplus:		
Par value	\$10,032,500.00	
Surplus	<u>2,435,053.28</u>	<u>12,467,553.28</u>
<b>Total</b>		<b><u>\$36,163,772.03</u></b>

It reports its balance sheet as of September 30, 1941,  
as follows:

Assets

Plant, property and equipment		\$43,112,890.89
Current and accrued assets -		
Cash and working funds	\$ 434,901.74	
Notes and accounts receivable	967,537.83	
Materials and supplies	1,391,321.30	
Prepayments	<u>50,263.04</u>	2,844,023.91
Unamortized debt discount and expense		1,538,321.35
Clearing accounts		45,686.14
Retirement work in progress		138,551.13
Other deferred debits		1,701.00
Capital stock expense		<u>171,128.37</u>
<b>Total</b>		<b><u>\$52,852,302.79</u></b>

Liabilities

Common capital stock		\$10,032,500.00
Preferred capital stock		7,500,000.00
Premium on preferred capital stock		196,218.75
Bonds		16,000,000.00
Current and accrued liabilities -		
Notes payable	\$ 200,000.00	
Accounts payable	934,008.55	
Dividends declared	319,481.25	
Customers' deposits	198,451.29	
Accrued liabilities	<u>1,619,768.31</u>	3,271,709.40
Deferred credits		139,993.66
Reserves for depreciation		11,577,861.27
Other reserves		1,089,962.90
Contributions in aid of construction		609,003.53
Earned surplus		<u>2,435,053.28</u>
<b>Total</b>		<b><u>\$52,852,302.79</u></b>

For the twelve months' period ending September 30,  
1941, the company reports its total operating revenues at

\$10,400,721.81 as compared with \$9,059,066.04 for the corresponding twelve months ending September 30, 1940, an increase of \$1,341,635.77 or 14.81%. However, it reports its operating expenses, depreciation and taxes at \$8,077,558.48 during the twelve months' period ending September 30, 1941 and at \$6,510,744.44 during the preceding twelve months' period, an increase of \$1,566,814.04 or 24.07%. Its net income, after all charges, representing the amount available for dividends, is shown at \$1,729,806.36 for the twelve months ending September 30, 1941 as compared with \$1,865,180.84 for the preceding period. The figures stated in this paragraph are as submitted by applicant and not as found reasonable by the Commission for the purpose of fixing rates.

During 1937, 1938 and 1939 and up to September 30, 1940, the company paid dividends on its outstanding \$10,032,500 of common stock at the rate of 8% per annum; since September 30, 1940, it has paid such dividends at the rate of 9% per annum. At the conclusion of the present financing, if authorized, applicant will have outstanding \$7,500,000 of preferred stock and \$12,500,000 of common stock on which the annual dividends, if the present rate is maintained, will be \$375,000 for the preferred stock and \$1,125,000 for the common stock, a total of \$1,500,000.

In making this application for permission to issue additional common stock, the company reports that up to September 30, 1941, it had expended for construction the sum of \$4,198,082.03 which, it appears, had been paid or provided through the use of surplus earnings and other moneys in its

treasury not obtained through the issue of bonds or stocks. It reports, in Exhibit "C," its present construction budget at \$8,824,914 of which, however, a portion will not be expended until 1942.

The company's expenditures for construction during the present year and now under construction have increased materially over those of recent preceding years. Its balance sheet shows a cash position where its current and accrued liabilities are in excess of its current and accrued assets. It clearly appears that its earnings, including its earnings appropriated to reserves, have been insufficient, and will be insufficient, to cover the capital requirements now planned or in process of construction, and that additional capital funds from outside sources are needed to enable the company to make provision for its construction costs and to improve its cash position.

It is indicated that applicant has \$10,032,500 par value of common stock outstanding. This stock consists of 1,003,250 shares of the par value of \$10 each. On or about August 26, 1940, Standard Gas and Electric Company owned \$9,938,700 par value, or 99.07%, of such stock. By its Decision of August 26, 1940, the Securities and Exchange Commission approved a plan pursuant to which the holders of notes and debentures of Standard Gas and Electric Company were permitted to exchange said notes and debentures for common stock of San Diego Gas & Electric Company, then known as San Diego Consolidated Gas and Electric Company. The exchange was on the basis of \$1,000 face amount of notes and debentures for \$580 par value

of stock. Standard Gas and Electric Company was not successful in disposing of all of San Diego Gas & Electric Company's common stock under such plan. On June 24, 1941, the Securities and Exchange Commission entered an order approving an amendment to said plan, providing for the disposition of the remaining 591,803 shares of common stock of San Diego Gas & Electric Company, then owned by Standard Gas and Electric Company. The Securities and Exchange Commission directed the company to invite competitive bids for the stock. Its order of July 8, 1941 shows that Standard Gas and Electric Company accepted the bid of thirty-one underwriters, including Blyth & Co., Inc.; that their bid was \$13.427 per share, and that the stock would be offered to the public at \$14.375 per share. On July 9, 1941, a syndicate headed by Blyth & Co., Inc. offered 590,527 shares of common stock of San Diego Gas & Electric Company at \$14.375 per share. The disposition of the common stock of San Diego Gas & Electric Company by Standard Gas and Electric Company was not a matter that came under the jurisdiction of the Railroad Commission. It did not fix the price at which said stock was exchanged for notes and debentures or the price at which the stock was sold to the public. Neither has it directly or indirectly approved the payment of dividends on such stock at the prevailing dividend rate. The Commission in fixing the rates of San Diego Gas & Electric Company at no time recognized a rate base that places a premium on the company's outstanding stock plus the stock which it now proposes to issue to reimburse its treasury because of income expended for construction purposes prior to September 30, 1941.

The order herein will authorize the company to issue the 246,750 shares of common stock at a net price at not less than the par value thereof.

ORDER

San Diego Gas & Electric Company having applied to the Railroad Commission for an order authorizing it to issue and sell 246,750 shares of its common capital stock, the Commission having considered the matter and it being of the opinion that this is not a matter on which a public hearing is necessary; that the request of the company should be granted, as herein provided; that the money, property or labor to be procured or paid for through the issue of said stock is reasonably required for the purposes specified herein, and that the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that San Diego Gas & Electric Company be, and it hereby is, authorized to issue and sell, on or before January 31, 1942, to net it not less than \$10 a share, not exceeding 246,750 shares of its common capital stock of the par value of \$10 a share and of the aggregate par value of \$2,467,500, and to use the proceeds for the reimbursement of moneys actually expended from income and from other moneys in its treasury not secured by or obtained from the issue of securities, for construction purposes prior to September 30, 1941, and for the payment, in part, of construction expenditures set forth in Exhibit "C" filed in this proceeding, now

being made and to be made.

The authority herein granted is subject to the following conditions:

1. San Diego Gas & Electric Company shall keep such record of the issue and sale of the 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.

2. Within ten days after the stock herein authorized is offered for sale to the public, San Diego Gas & Electric Company shall file with the Commission three copies of the prospectus under which such stock is offered for sale and three copies of the underwriting agreement for the sale of such stock.

3. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 12<sup>th</sup> day of November, 1941.

Ray C. Riley  
Justus J. Coe  
Francis D. Havens  
Richard L. Lach  
Commissioners.