

Decision No. 40198

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
PACIFIC GAS AND ELECTRIC COMPANY, a )  
corporation, for an order of the )  
Public Utilities Commission of the )  
State of California authorizing )  
applicant to issue, sell, and deliver )  
shares of its common capital stock )  
in the manner, to the amount, and )  
for the purposes set forth herein. )  
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ORIGINAL

Application  
No. 28341

Robert H. Gerdes and R. W. DuVal, for applicant.  
John J. O'Toole, City Attorney, Dion R. Holm,  
Assistant City Attorney, and Paul A. Beck,  
Chief Valuation and Rate Engineer, by Paul A.  
Beck, for City and County of San Francisco,  
interested party.

O P I N I O N

Pacific Gas and Electric Company, hereinafter sometimes referred to as Applicant, asks permission to issue, sell and deliver at and for the par value thereof, not exceeding 626,136 shares of Applicant's common capital stock of the par value of \$25 per share and of the aggregate par value of \$15,653,400, and use the proceeds to reimburse its treasury in part on account of capital expenditures made on or prior to December 31, 1946, and/or to pay in part the cost of additions to, extensions of and betterments or improvements to its plants, properties and facilities made, or to be made, subsequent to December 31, 1946.

The following statement shows the authorized shares of Applicant's stock, the number of shares outstanding and the

aggregate par value of the shares outstanding:

Classification of Capital Stock	Number of Shares Authorized	Shares Issued and Outstanding	Aggregate Par Value--Shares Issued and Outstanding
<b>First Preferred Stock:</b>			
6%	4,600,000	4,211,662	\$105,291,550
5 $\frac{1}{2}$ %	1,600,000	1,173,163	29,329,075
5%	800,000	400,000	10,000,000
4%	1,000,000	--	--
<b>Common Stock:</b>	<u>10,000,000</u>	<u>6,261,357</u>	<u>156,533,925</u>
<b>Total</b>	<b>18,000,000</b>	<b>12,046,182</b>	<b>\$301,154,550</b>

The shares of Applicant's stock, both preferred and common, have a par value of \$25 each.

Applicant had, as of February 28, 1947, outstanding in the hands of the public \$328,453,000 of bonds, segregated as follows:

<u>Class of Bonds</u>	<u>Amount Outstanding</u>
San Joaquin Light and Power Corporation Unifying and Refunding Mortgage, 6%, Series B of 1952 bonds assumed by Applicant	\$ 7,930,000
Pacific Gas and Electric Company First and Refunding Mortgage bonds:	
Series I 3 $\frac{1}{2}$ % Bonds due June 1, 1966	927,000
Series J 3% Bonds due December 1, 1970	18,744,000
Series K 3% Bonds due June 1, 1971	23,937,000
Series L 3% Bonds due June 1, 1974	110,448,000
Series M 3% Bonds due December 1, 1979	79,825,000
Series N 3% Bonds due December 1, 1977	48,642,000
Series O 3% Bonds due December 1, 1975	13,000,000
Series P 2-3/4% Bonds due June 1, 1981	<u>25,000,000</u>
<b>Total</b>	<b><u>\$328,453,000</u></b>

The testimony shows that Applicant's gross construction expenditures for 1945 amounted to about \$22,526,000, to about \$44,305,000 for 1946, and are estimated at \$70,000,000 for 1947.

Its actual gross construction expenditures during January and February of 1947 are reported at about \$11,355,000. For the years 1947-1951, inclusive, Applicant estimates its construction expenditures at about \$302,000,000, segregated as follows:

Hydro electric plants	\$ 72,000,000
Steam electric plants	51,000,000
Electric transmission and substations related to major developments	70,000,000
Gas transmission mains	7,000,000
Electric, gas and other distribution systems	100,000,000
Office building addition	<u>2,000,000</u>
Total	<u>\$302,000,000</u>

Applicant's income from operations is not sufficient to finance in its entirety its 1947 construction expenditures. It is for this reason, and for the further reason of placing itself in a position to issue additional bonds and preferred stock on advantageous terms that Applicant is asking authority to issue additional common stock.

As said, Applicant is asking permission to issue and sell at par 626,136 shares of its common stock. As of December 31, 1946, Applicant's outstanding 6,261,357 shares of common stock were owned by 73,466 stockholders. The following statement shows the distribution of the stock holdings by size of holdings:

	Shares each	Number	Per Cent
1 to 5	" "	6,690	9.1
6 to 10	" "	8,206	11.2
11 to 25	" "	19,769	26.9
26 to 50	" "	16,741	22.8
51 to 100	" "	13,621	18.5
101 to 200	" "	5,035	6.9
201 to 500	" "	2,447	3.3
501 to 1000	" "	554	.8
Over 1000	" "	<u>393</u>	<u>.5</u>
Total		73,466	100.0

The additional shares of stock will be offered at par to the holders of its common stock on the basis of one share of common stock for each ten shares of common stock owned by them of record at the close of business on May 12, 1947. Warrants will, on or before May 29, be mailed to the holders of common stock to represent subscription rights in accordance with the number of shares registered in their names on the record date. The warrants will be in two forms: (a) whole share warrants entitling the holder to subscribe for one or more common shares, and (b) fractional share warrants which, when combined with other fractional shares totaling a whole share or shares, will entitle the holder to subscribe for such whole share or shares. The warrants are transferable upon executing the assignment on the back of the warrants. Applicant will not issue any fractional shares of stock. Subscription rights may be exercised by executing the subscription form on the back of the warrants and surrendering them, with payment in full at the rate of \$25 per share for each share subscribed for, at the office of the American Trust Company, 464 California Street, San Francisco 4, California, before 3:00 P.M. Pacific Standard Time June 30, 1947, or at the office of the Bankers Trust Company, 16 Wall Street, New York 15, N. Y. Payment may be made by checks, drafts or money orders drawn to the order of Pacific Gas and Electric Company or institutions located in the continental United States and must be payable in United States funds.

Applicant's Articles of Incorporation have given, since 1928 and do now give, the holders of common stock a preferential right to subscribe for or purchase unissued shares of common stock, if and when offered for subscription or sale, provided that

common stock of an aggregate par value of not exceeding \$5,000,000 may be sold to employees and persons actively engaged in the conduct of the company's business, other than its directors and principal officers, at a price not less than the par value thereof.(1)

Holders of Applicant's preferred stock have no preemptive or other subscription rights.

Applicant proposes to issue its common stock at this time for the purpose of reimbursing its treasury because of income expended for capital purposes and to finance 1947 construction expenditures, and for the further purpose of improving its capital structure and placing itself in a position to issue additional preferred stock and bonds. As of December 31, 1946, Applicant's capital structure consisted of the following:

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(1) Applicant's Articles of Incorporation contain the following provisions:

"The unissued shares of said common stock may be offered for subscription or sale or in exchange for property and be issued from time to time upon such terms and conditions as said Board of Directors may prescribe; but, when offered for subscription or sale, such shares shall be offered first to this corporation's common stockholders, who shall have a preferential right to subscribe for or purchase the shares so offered, in proportion to the number of shares of such common stock held by them respectively.

"Notwithstanding the provision hereinbefore contained securing to this corporation's common stockholders a preferential right to subscribe for and purchase unissued shares of this corporation's common stock, the Board of Directors shall have the right and power in its discretion and from time to time, to offer for subscription and sale and to issue to this corporation's employees and persons actively engaged in the conduct of its business, except its directors, president, vice presidents, secretary and treasurer, at a price not less than their par value, either separately or with shares of preferred stock, upon such terms and conditions as said board may prescribe, shares of this corporation's common stock of an aggregate par value not exceeding five million dollars (\$5,000,000)."

<u>Item</u>	<u>Amount</u>	<u>Per Cent</u>
Bonds	\$328,742,000	47.8
Preferred stock	144,621,000	21.0
Common stock	156,550,000	22.8
Surplus	<u>57,881,000</u>	<u>8.4</u>
Total	\$687,794,000	100.0

The testimony shows that Applicant in financing its construction program during the next few years will use bonds, preferred and common stock. Applicant did issue \$25,000,000 of bonds in October, 1946. In view of Applicant's capital ratios and its construction program, there is no question but that it should issue the additional shares of common stock. James B. Black, Applicant's President, testified that in his opinion the offering of the stock to the holders of common stock continues a policy that the company adopted in 1928, and that in his opinion the stockholders, under present market conditions, will subscribe for the stock at par.

Although Applicant's reported book value per share of common stock is in excess of the par value per share, its book figures have not coincided with the rate base values used by the Commission for rate making purposes. They should not be used as a basis for requiring the shares of stock to be sold at more than their par value.

It should be understood that in fixing Applicant's rates, the Commission does not regard the dividends paid per share on common stock as representing the cost of money obtained through the issue of such stock.

O R D E R

Pacific Gas and Electric Company having applied to the Public Utilities Commission of the State of California for authority to issue and sell \$15,653,400 par value of its common capital stock at par, and the Commission having considered the evidence submitted by Applicant and it being of the opinion that the money, property or labor to be procured or paid for through the issue and sale of such stock is reasonably required for the purposes specified herein, which 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. Pacific Gas and Electric Company may issue, sell and deliver, on or before October 1, 1947, at not less than the par value thereof, 626,136 shares of its common capital stock of the aggregate par value of \$15,653,400, such shares of stock to be offered to the holders of its common stock on the basis indicated in this application, and use the proceeds realized through the issue and sale of such stock to reimburse its treasury in part on account of capital expenditures made on or prior to December 31, 1946, and/or to pay in part the cost of additions to, extensions of and betterments or improvements to its plants, properties and facilities made, or to be made, subsequent to December 31, 1946, provided that only such expenditures as are chargeable to fixed capital accounts under the uniform systems of accounts prescribed by the Commission, or in the absence thereof, in accordance with sound accounting practices, may be financed by the proceeds to be received through the issue and sale of the stock herein authorized.

2. Pacific Gas and Electric Company shall keep such record of the issue, sale and delivery of the stock herein authorized and of the disposition of the proceeds as will enable it to file a report, or reports, required by the Commission's General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

3. Within six (6) months after the issue, sale and delivery of such shares of stock, Pacific Gas and Electric Company shall file with the Commission a statement showing the expenses incurred by it in connection with the issue, sale and delivery of said shares of stock.

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

Dated at San Francisco, California, this 22<sup>nd</sup> day of April, 1947.

Harold P. Kuls

Frank H. Powell

A. B. Morrison

Herbert D. Potter  
Commissioners