

Decision No. 40275

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
COAST COUNTIES GAS AND ELECTRIC)
COMPANY, a corporation,)
)
for an order, under Section 52(b) of)
the Public Utilities Act, authorizing)
the issue of shares of Preferred)
Stock.)
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ORIGINAL

Application
No. 28351

Pillsbury, Madison and Sutro, by
Hugh Fullerton, Bert B. Snyder, and
J. K. Horton, for applicant.

R. E. Mittelstaedt, Commissioner

O P I N I O N

In this application, Coast Counties Gas and Electric Company asks permission to issue for the purposes hereinafter stated, 140,000 shares of its Series A 4% Preferred Stock of the par value of \$25.00 a share and for an order exempting the stock issue from the order in Decision No. 38614, dated January 15, 1946, which order requires public utilities to invite publicly, written sealed bids for the purchase of certain of their securities.

Coast Counties Gas and Electric Company, hereinafter sometimes referred to as Applicant, is a California corporation engaged in the business of distributing electricity and natural and butane gas and selling water within the State of California as a public utility. For the year 1946, Applicant reports operating revenues of \$7,389,331.80 segregated as follows:

Electric department	\$2,491,438.42
Gas department	4,846,138.89
Water department	51,754.49

For the year 1946, Applicant reports its net income, that is the amount available for the payment of dividends and surplus at \$609,495.71. During the year it paid dividends on its Preferred Stock in the amount of \$93,750 and on its Common Stock in the amount of \$289,600. Its accumulated earned surplus as of December 31, 1946 was reported at \$491,527.37.

As of February 28, 1947, Applicant reports its assets and liabilities as follows:

ASSETS

Fixed assets:

Utility plant and equipment	\$16,945,500.59
Intangibles and franchises	23,711.86
Organization expense	154,075.81
Construction work in progress	555,581.99
Total fixed assets	<u>\$17,678,870.25</u>

Investment and fund accounts:

Sinking fund	750.00
Other physical property	15,085.60
Tank gas equipment	7,054.38
Contra Costa paving bond	400.00
U. S. 2% treasury bonds	37,790.17
Total investments and fund accounts	<u>61,080.15</u>

Current and accrued assets:

Cash	460,652.13
Special deposits	12,665.08
Accounts receivable	830,927.37
Interest & dividends receivable	156.25
Materials and supplies	511,702.11
Prepayments	125,444.87
Total current and accrued assets	<u>1,941,547.81</u>

Deferred debits:

Unamortized debt discount and expense	296,370.44
Retirement work in progress	4,131.29
Other work in progress	1,338.78
Other deferred debits	3,906.25
Total deferred debits	<u>305,746.76</u>

Total assets	<u>\$19,987,244.97</u>
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LIABILITIES

<u>Capital stock:</u>	
5% first preferred cumulative	\$1,875,000.00
Common	<u>3,620,000.00</u>
Total capital stock	<u>5,495,000.00</u>
<u>Long-term debt:</u>	
First mortgage bonds- 3 $\frac{1}{4}$ % due 1971	3,325,000.00
First mortgage bonds- 2-3/4% due 1975	<u>2,132,000.00</u>
Total long-term debt	<u>5,457,000.00</u>
<u>Current and accrued liabilities:</u>	
Notes payable	600,000.00
Accounts payable	179,456.04
Payable to associated companies	348,103.00
Dividends declared	95,837.50
Customers' deposits	27,135.50
Accrued taxes	679,654.13
Accrued interest	37,553.75
Other current and accrued liabilities	<u>28,718.80</u>
Total current and accrued liabilities	<u>1,996,458.72</u>
<u>Deferred credits:</u>	
Customers advances for construction	138,141.23
Other deferred credits	7,358.47
Clearing accounts	269.16
Unamortized premium on debt	<u>103,957.38</u>
Total deferred credits	<u>249,726.24</u>
<u>Reserves:</u>	
Depreciation	6,041,699.82
Uncollectible accounts	37,332.94
Injuries and damages	57,523.71
Total reserves	<u>6,136,556.47</u>
<u>Contributions in aid of construction:</u>	
	69,540.19
Earned surplus	<u>582,963.35</u>
Total surplus	<u>582,963.35</u>
Total liabilities	<u>\$19,987,244.97</u>

The utility plant and equipment reported at \$16,945,500.29 includes \$891,517.91 designated by Applicant in its 1946 annual report as "Utility plant acquisition adjustments."

Applicant has outstanding 75,000 shares (\$1,875,000 par value) of 5% First Preferred Stock. This stock was issued in 1940 to retire or redeem 6% First Preferred Stock. The 5% First Preferred Stock is now at Applicant's option, on not less than 30 days notice redeemable at \$26 per share plus accrued dividends.

It is Applicant's intention as soon as its registration statement is declared effective by the Securities and Exchange Commission to offer the holders of its presently outstanding 75,000 shares of 5% First Preferred Stock the opportunity to exchange said stock on the basis of Applicant's Series A 4% Preferred Stock for each share of outstanding 5% First Preferred Stock with a cash adjustment to shareholders for accrued dividends. The exchange offer will remain open for a period of 21 days. Such shares of the Series A 4% Preferred Stock as are not exchanged for the 5% First Preferred Stock plus 65,000 additional shares of Series A 4% Preferred Stock will be sold to Dean Witter & Co. and other Underwriters. The testimony shows that they will be paid 37½¢ per share on that portion of the 75,000 shares of Series A 4% Preferred Stock exchanged and 50¢ per share on all shares of Series A 4% Preferred Stock sold by Applicant to the Underwriters. The Underwriters are committed, subject to certain conditions, to pay Applicant \$25.50 per share for all shares unexchanged, regardless of changes in market conditions while the exchange offer is outstanding. The Series A 4% Preferred Stock will be initially offered to the public at \$26 per share or on a 3.85% yield basis. Applicant is interested in obtaining as large an exchange of stock as possible. The Underwriters agree to solicit present shareholders during the exchange period to exchange their stock, assist Applicant in preparing the registration statement and the prospectus and endeavor to sell in Applicant's territory as much of the new stock as possible. More than half of Applicant's shareholders owning about 1/3 of its outstanding 5% First Preferred Stock reside in the territory served by Applicant. Applicant is of the opinion that it is to its advantage to have as many shares of its Series A 4% Preferred Stock as possible, exchanged or sold to residents in

its service area. It is fearful that because of the relative smallness of the issue that will be offered to the public a successful bidder may place the entire issue into the hands of investors removed from Applicant's territory.

That Applicant is in need of additional funds is evidenced by the fact that for the purpose of carrying forward its construction program, it has borrowed from the American Trust Company on short-term unsecured notes, \$1,150,000. In Exhibit "1" Applicant estimates its gross construction expenditures for 1947 at \$3,117,000, segregated as follows:

Electric department	\$1,055,000.
Gas department	1,625,000.
Water department	5,000.
Common capital	432,000.

The exhibit shows the purposes for which the \$3,117,000 will be expended. In Exhibit "2" Applicant reports its capital expenditure for 1946, \$2,154,027. Applicant asks permission to use the proceeds from the 65,000 shares of stock to reimburse its treasury because of income expended for capital purposes. In effect the proceeds will be used to pay notes due American Trust Company and finance new construction.

Applicant asks permission to deviate from the uniform system of accounts and credit to capital surplus any premium it will receive upon the sale to Underwriters of any Series A 4% Preferred Stock. It further asks permission to charge to capital surplus and to miscellaneous debits to surplus any premium it must pay upon the redemption of its 5% Preferred Stock and its expenses estimated at \$100,000 in connection with the issue of its Series A 4% Preferred Stock. Applicant should also charge to miscellaneous

debits to surplus any stock selling expenses now recorded on its books and applicable to the issue and sale of its 6% Preferred Stock which was heretofore converted into 5% Preferred Stock, or redeemed through the issue of the 5% Preferred Stock.

In view of the fact that Applicant is interested in effecting as large an exchange of stock as possible, and on the basis of the evidence in this proceeding, the order herein will exempt the issue of the 140,000 shares of Series A 4% Preferred Stock from the order in Decision No. 38614, dated January 15, 1946.

I submit the following form of order:

O R D E R

The Commission having considered the evidence submitted at the hearing had on this application, and it being of the opinion that the money, property or labor to be procured or paid for through the issue of 140,000 shares of Series A 4% Preferred Stock by Coast Counties Gas and Electric Company is reasonably required by it for the purposes herein stated, 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. Coast Counties Gas and Electric Company may, after the effective date hereof and on or before August 31, 1947, issue 140,000 shares of its Series A 4% Preferred Stock of the par value of \$25 per share, for the following consideration: (a) for each share thereof, up to 75,000 shares, a share of Coast Counties Gas

and Electric Company's 5% Preferred Stock now outstanding; (b) for all other shares, for each share, the sum in cash of not less than \$25.50 per share, said shares to be sold to Underwriters under the terms and conditions set forth in the foregoing opinion.

2. Coast Counties Gas and Electric Company shall use the proceeds realized from the sale of any of said shares of stock to Underwriters to redeem or retire its outstanding unexchanged 5% Preferred Stock, and to reimburse its treasury on account of income expended for capital expenditures or pay indebtedness incurred for said purpose.

3. The issue, exchange and/or sale of said 140,000 shares of stock are exempt from the order in Decision No. 38614, dated January 15, 1946.

4. The authority herein granted will become effective when Coast Counties Gas and Electric Company has filed with the Public Utilities Commission a complete copy of the registration statement filed with the Securities and Exchange Commission.

5. The order in Decision No. 30269, dated October 25, 1937, as amended by Decision No. 30339, dated November 15, 1937, is hereby modified so as to permit Coast Counties Gas and Electric Company to credit to capital surplus the premium received upon the sale to Underwriters of its Series A 4% Preferred Stock, and to charge against said capital surplus and miscellaneous debits to surplus the premium paid upon the redemption or retirement of its 5% Preferred Stock, and the expenses incident to the sale of its Series A 4% Preferred Stock.

6. Coast Counties Gas and Electric Company shall file with the Commission a report, or reports, as required by the

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 Public Utilities Commission of the State of California.

Dated at Los Angeles, California, this 13th day of May 1947.

Harold P. Kula

Justus Powell

R. B. Dreyfus

Benjamin Potter

Commissioners