

ORIGINAL

Decision No. 43953

BEFORE THE PUBLIC UTILITIES 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 500,000 shares of its Common)
 Stock of the Par Value of \$10 per)
 share, and for an order of this Com-)
 mission exempting Applicant from the)
 requirement that such shares be sold)
 at competitive bidding.)
 -----)

Application
No. 31027

Chickering & Gregory, by Sherman Chickering,
for applicant.

OPINION

This is an application for an order of the Commission authorizing San Diego Gas & Electric Company to issue and sell 500,000 shares of its common stock of the par value of \$10 each, and declaring the issue of such shares to be exempt from the provisions of the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, in Case No. 4761.

Applicant is engaged in the business of manufacturing, purchasing and selling electricity in the Counties of San Diego and Orange, in purchasing and selling gas in the County of San Diego, and in furnishing high and low pressure steam service in the City of San Diego. In Exhibit A attached to the application it reports, for the year 1949, operating revenues of \$23,387,037.26 and net income after all charges, available for dividends and surplus, at \$2,705,877.99. Dividends on applicant's preferred stock were

reported at \$561,750 in 1949, and on the common stock at \$1,520,000. In 1949, and for a number of years prior thereto, dividends have been paid on the common stock at the rate of 8% of the par value.

The assets and liabilities as of December 31, 1949, are reported as follows:

<u>Assets</u>		
Utility plant		\$91,094,240.43
Current assets -		
Cash and deposits	\$ 1,675,592.19	
Accounts receivable	1,696,698.86	
Materials and supplies	1,353,144.19	
Prepayments	<u>117,826.18</u>	
Total current assets		4,843,261.42
Deferred charges		<u>232,232.67</u>
Total		<u>\$96,169,734.52</u>
<u>Liabilities</u>		
Long-term debt -		
First mortgage bonds	\$26,000,000.00	
Notes payable to banks	<u>2,400,000.00</u>	
Total long-term debt		\$28,400,000.00
Current liabilities -		
Accounts payable	1,863,622.78	
Customers' deposits	251,566.76	
Accrued taxes and interest	2,916,297.95	
Other current liabilities	<u>385,694.44</u>	
Total current liabilities		5,417,181.93
Deferred credits		356,290.90
Reserve for depreciation and amortization		22,506,184.72
Other reserves		165,018.36
Contributions in aid of construction		758,952.93
Preferred stock		13,500,000.00
Common stock		19,000,000.00
Premiums on stock		2,526,013.06
Surplus		<u>3,540,092.62</u>
Total		<u>\$96,169,734.52</u>

In general, it has been applicant's practice to finance the cost of its property with borrowed money, with proceeds from the issue and sale of preferred and common stock, and through the investment of earnings from operations. It now seeks permission to issue

and sell the 500,000 additional shares of common stock, of the aggregate par value of \$5,000,000, for the purpose of paying expenses incident to such issue and sale, to pay bank loans reported at \$4,800,000 which are said to have been incurred for construction purposes, and to reimburse its treasury and to finance the cost of additions to plant.

In Exhibit C, applicant reports its uncapitalized construction as of December 31, 1949, at \$7,455,136.22, and in Exhibit B its estimated expenditures for 1950 at \$13,386,220, a segregation of which is as follows:

Electric -	
Production	
Silvergate Station, Unit No. 3	\$ 5,091,373
Other production expenditures	<u>197,038</u>
Total production	5,288,411
Transmission	1,869,582
Distribution	<u>3,272,818</u>
Total electric	<u>10,430,811</u>
Gas -	
Production	77,418
Transmission	35,000
Distribution	<u>1,745,966</u>
Total gas	<u>1,858,384</u>
Steam	3,000
General	<u>997,542</u>
Sub-total	13,289,737
Estimated additional authorization required to cover over-run on above estimate	<u>96,483</u>
Total	<u>\$13,386,220</u>

It appears that the reported estimated expenditures are necessary to meet the increasing demand for service. Applicant reports the increase in its electric consumers during 1949 at approximately 8,400 and in gas consumers at approximately 6,300, and it estimates further increases during 1950 of approximately 6,300

consumers in its electric department and of approximately 5,500 consumers in its gas department. The allowance of \$5,091,373 for the Silvergate Station is a part of total estimated expenditures of \$8,000,000 (\$2,908,627 having been expended prior to December 31, 1949) designed to provide additional generating capacity of 50,000 KW. It is estimated the unit will be completed and placed in operation during this year.

The record shows that it is applicant's intention to meet its 1950 construction expenditures in part through the sale of bonds or preferred stock and through the sale of common stock. It desires to sell common stock at this time rather than some other form of security for the reason that in its opinion conditions are favorable to the sale of common stock, and that it desires to place its capital structure in such position as to insure the sale on reasonable terms of bonds or preferred stock later in the year. Its capital ratios as reflected by its books at the end of 1949 and after giving effect to the proposed sale of common stock are as follows:

	<u>Per Books</u>	<u>Pro Forma</u>
Bonds	40.25%	36.83%
Preferred stock	21.22	19.42
Equity capital	<u>38.53</u>	<u>43.75</u>
	<u>100.00%</u>	<u>100.00%</u>

Applicant seeks permission to dispose of its shares of common stock by means of a negotiated sale. The chairman of applicant's board of directors testified that in his opinion previous sales of its stock at competitive bidding have not been advantageous to it and that in his judgement applicant at this time can obtain better terms, with a more favorable distribution of its stock, under a negotiated underwriting. He testified further that the sale of

the shares of stock under such an underwriting would permit flexibility in timing the issue to meet market conditions and would also permit advance market preparation and sales effort by the prospective purchasers.

The evidence in this particular proceeding warrants the Commission to make a preliminary order authorizing the issue as requested and exempting such issue from the requirements of its competitive bidding rule. In due time applicant should file a supplemental application for the Commission's further consideration in this matter, showing the exact terms and conditions under which it proposes to sell its shares of stock and containing a copy of the proposed underwriting agreement.

O R D E R

A public hearing having been had on the above entitled application, the Commission having considered the evidence submitted and being of the opinion that the money, property or labor to be procured or paid for through the issue of 500,000 shares of common stock is reasonably required by San Diego Gas & Electric Company for the purposes specified herein, that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that the application should be granted, subject to the provisions of this order; therefore,

IT IS HEREBY ORDERED as follows:

1. The issue and sale of 500,000 shares of common stock by San Diego Gas & Electric Company, provided it obtains for said shares a price satisfactory to the Commission, is hereby exempted

from the provisions of the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946.

2. San Diego Gas & Electric Company, after the effective date hereof and on or before July 31, 1950, may issue and sell 500,000 shares of its common stock at a price to be fixed by the Commission in a supplemental order in this proceeding.

3. The authority herein granted to issue and sell said shares of common stock will become effective when the Commission by said supplemental order has fixed the price at which said shares may be sold. All other authority granted by this order is effective upon the date hereof.

4. San Diego Gas & Electric Company shall use the proceeds to be received through the issue and sale of said shares of common stock to pay bank loans incurred in making additions and betterments to its plants and properties, to pay expenses incident to the issue and sale of the shares of stock, to reimburse its treasury for capital expenditures made on or prior to December 31, 1949, and to finance in part its estimated capital expenditures during 1950.

5. Within ninety (90) days after the issue and sale of said 500,000 shares of common stock, San Diego Gas & Electric Company shall file with the Commission two (2) copies of its prospectus and a report showing the names of the underwriters to whom said shares were sold, the number of shares sold to each underwriter, the consideration received, and the purposes for which it expended the proceeds obtained from the issue and sale of said shares.

Dated at San Francisco, California, this 21st day of
March, 1950.

R. E. Johnson
James F. Cooney
Grant Lowell
Harold Hule
Kenneth Potter
Commissioners