

**ORIGINAL**

Decision No. 45189

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 325,000 shares of its Cumula- )  
tive Preferred Stock, \_\_\_\_\_% Series, )  
\$20 par value, and for an order of this )  
Commission exempting Applicant from the )  
requirement that such shares be sold at )  
public bidding. )  
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Application  
No. 31958  
(And Amendment)

Chickering & Gregory, by Sherman Chickering,  
for applicant.

O P I N I O N

In this application, as amended, San Diego Gas & Electric Company requests an order exempting from competitive bidding a proposed issue of 325,000 shares (\$6,500,000 par value) of Cumulative Preferred Stock, \_\_\_\_\_% Series, \$20 par value, and authorizing it to issue and sell said shares at a price to be fixed in a supplemental order herein.

A public hearing in this matter was held on December 21, 1950. The Commission has received no protest to the granting of the application.

Applicant is engaged as a public utility in the business of manufacturing, purchasing and selling electricity in the Counties of San Diego and Orange, of purchasing and selling gas in the County of San Diego, and of giving high and low pressure steam service in the City of San Diego.<sup>(1)</sup> As of October 31, 1950, it reports assets and

(1)  
For the year ended October 31, 1950, applicant reports operating revenues of \$24,341,016 with net income available for dividends and surplus of \$3,601,883. For the calendar year 1949, it reports operating revenues of \$23,387,037 with net income of \$2,705,878.

liabilities as follows:

<u>Assets</u>		
Utility plant		\$100,188,043.28
Current assets -		
Cash and deposits	\$1,211,479.92	
Accounts receivable-net	1,603,459.36	
Materials and supplies	1,196,665.08	
Prepayments	<u>420,959.13</u>	
Total current assets		4,432,563.49
Deferred charges		<u>238,138.23</u>
Total		<u>\$104,858,745.00</u>
<u>Liabilities</u>		
Long-term debt		\$ 26,800,000.00
Current liabilities -		
Accounts payable	\$1,141,750.08	
Customers' deposits	275,743.20	
Accrued liabilities	4,520,636.69	
Other current liabilities	<u>344,938.31</u>	
Total current liabilities		6,283,068.28
Deferred credits		473,966.97
Reserves		24,247,461.83
Contributions in aid of construction		777,666.69
Capital stock and premiums		41,617,813.29
Surplus		<u>4,658,767.94</u>
Total		<u>\$104,858,745.00</u>

The outstanding capital stock, including premiums thereon, consists of the following:

	<u>Number of Shares</u>	<u>Par Value</u>	<u>Amount</u>
Cumulative Preferred Stock, 5%	375,000	\$20	\$ 7,500,000
Cumulative Preferred Stock, 4 $\frac{1}{2}$ %	300,000	20	6,000,000
Sub-total	<u>675,000</u>	-	<u>13,500,000</u>
Common Stock	<u>2,400,000</u>	<u>10</u>	24,000,000
Premiums on Stock			<u>4,117,813</u>
Total			<u>\$41,617,813</u>

Applicant now asks permission to issue and sell additional shares of preferred stock of the aggregate par value of \$6,500,000 and to use the proceeds to pay expenses incident to the issue and sale thereof and to reimburse its treasury for capital expenditures made on or prior to October 31, 1950. In support of its request it shows, in Exhibit C filed with the application, that as of October 31, 1950,

it had uncapitalized construction expenditures of \$10,106,696.33 which had been paid with treasury funds, from internal sources and with bank borrowings.

The testimony indicates that applicant, after replenishing its treasury, proposes to use the proceeds from the sale of its shares of stock to pay back loans which are expected to aggregate \$3,200,000 by the close of the year and to meet in part 1951 construction expenditures which presently are estimated at \$10,368,800. The amount is segregated as follows:

Electric department -		
Production	\$3,146,000	
Transmission	1,302,600	
Distribution	<u>3,372,700</u>	
Total electric department		\$ 7,821,300
Gas department -		
Production	22,900	
Transmission	5,000	
Distribution	<u>1,652,900</u>	
Total gas department		1,680,800
Steam sales department		27,000
General		<u>839,700</u>
	Total	<u>\$10,368,800</u>

It appears that the estimated expenditures are designed to meet increasing demands for service. Applicant reports its gain in number of customers during 1950 (up to December 7) at 10,974 in its electric department and at 8,956 in its gas department, and it anticipates additional large increases, though somewhat fewer in number, during 1951. The proposed expenditures for electric production capital include \$3,000,000 on a fourth unit at its Silvergate steam plant designed to provide additional generating capacity of 50,000 kw, the total cost of the unit being estimated at \$8,000,000, with completion scheduled for the latter part of 1952.

It has been applicant's practice to finance its capital requirements through the issue of bonds and shares of preferred and common stock and through the use of earnings from operations. Its

capital structure as of October 31, 1950, and as adjusted to give effect to the proposed issue of shares of preferred stock, is as follows:

	<u>Oct. 31, 1950</u>	<u>Pro Forma</u>
Bonds	36%	33%
Preferred stock, including premiums	19	26
Equity capital	<u>45</u>	<u>41</u>
Total	<u>100%</u>	<u>100%</u>

Applicant believes that it can sell its shares of preferred stock at this time at a favorable price and it feels that in view of the conditions presently prevailing it should avail itself of the opportunity to obtain stock money and to save its borrowing capacity to a later date when stock financing may be more difficult. While the bond component of its capital structure may be low, it appears desirable for applicant to build such structure along conservative lines so as to insure more readily future sales of bonds as capital funds become necessary in carrying on its construction program. The record shows that applicant intends to go into the market in the latter part of 1951 with an issue of \$10,000,000 of bonds.

As stated, applicant desires authority to sell its shares of preferred stock under a negotiated arrangement. It is of the opinion that it can obtain a better price, with a more favorable distribution, under a negotiated underwriting than it can at competitive bidding. In support of its contention, it submitted, as Exhibit 3, a tabulation of preferred stock issues which were offered by other utilities in 1950 showing, for gas and electric companies, thirteen offerings which were sold at competitive bidding at costs to the issuing companies ranging from 3.74% to 4.70%, with an average of 4.29%, and twelve issues of negotiated offerings or exchanges which were sold at costs ranging from 3.97% to 4.82%, with an average of 4.20%.

The chairman of applicant's board of directors testified that in his opinion previous sales of applicant's stock at competitive bidding have not been advantageous to it, either in the matter of price or distribution. As shown in Exhibit 2, applicant heretofore issued and sold, at competitive bidding, 300,000 shares of preferred stock, of which 25.23% is held in California and 74.77% elsewhere, and that it sold, under a negotiated contract, 375,000 shares of preferred stock of which 70.29% is held in California and 29.71% elsewhere. Applicant feels that it is to its advantage to have its stock held by its customers and it believes that with a negotiated sale it can obtain a greater allotment of the shares of the proposed issue to dealers in its territory and thereby increase the number and holdings of its local stockholders. It represents, further, that a sale by a negotiated underwriting will permit certain flexibility in timing the offering to meet market conditions.

A review of the record clearly shows that applicant has need for additional funds to improve its financial position and to enable it to proceed with its construction plans and that the issue of shares of preferred stock at this time is desirable, provided applicant receives a favorable price for them. 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 will file a supplemental application showing the dividend rate, redemption features, if any, and the exact terms and conditions under which it proposes to sell its shares of stock and containing a copy of the proposed underwriting agreement. At that time, the Commission will give further consideration to applicant's request to issue and sell shares of its stock.

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 325,000 shares of preferred 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 325,000 shares of Cumulative Preferred Stock, \_\_\_\_\_% Series, by San Diego Gas & Electric Company, is hereby exempted from the provisions of the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, provided applicant obtains for said shares a price satisfactory to the Commission.
2. San Diego Gas & Electric Company, after the effective date hereof and on or before June 30, 1951, may issue and sell said 325,000 shares of preferred 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 preferred 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 preferred stock for the purposes set forth in this application.

5. Within ninety (90) days after the issue and sale of said 325,000 shares of preferred 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 27th day of December, 1950.

R. J. Anderson  
Justice F. Callahan  
Charles H. Powell.

Francis H. Potter  
Commissioners