

Decision No. 45414

**ORIGINAL**

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, among  
other things, to issue, sell, and deli-  
ver shares of its common capital stock  
in the manner, to the amount, and for  
the purposes set forth herein; and re-  
lieving applicant of the necessity of  
complying with the requirements of  
Section A, 1 of said Commission's  
General Order No. 24-A.

Application  
No. 32124

Ralph W. DuVal and Richard H. Peterson, for applicant;  
Dion R. Holm, City Attorney, and Paul L. Beck, Chief  
Valuation and Rate Engineer in the City Attorney's  
Office, for the City of San Francisco, interested  
party; John W. Collier, City Attorney, and Loren W.  
East, Public Utility Engineer, for the City of Oakland,  
interested party.

O P I N I O N

Pacific Gas and Electric Company has filed this application for an order authorizing it to issue, sell and deliver not exceeding 1,419,562 shares of its common capital stock of the aggregate par value of not exceeding \$35,489,050.

Applicant proposes to use the net proceeds from its shares of stock to reimburse its treasury and to provide the cost of constructing additions, betterments, extensions and improvements to its plants, properties and facilities. It reports that as of November 30, 1950, its capital expenditures for which it had not been reimbursed through the issue of securities amounted to \$233,343,832.39 and that the unexpended balances of authorizations for capital additions and improvements in progress of construction aggregated \$157,347,060.99,

segregated to departments as follows:

Electric	\$137,587,338.53
Gas	17,562,416.70
Water	253,334.78
Steam Sales	181,174.86
Other Physical Property	5,733.81
Common Utility	<u>1,757,062.31</u>
Total	<u>\$157,347,060.99</u>

Not all the construction jobs now in progress will be completed this year. Applicant estimates that its expenditures for capital purposes during the twelve months ending November 30, 1951, will equal or exceed the sum of \$130,000,000 of which approximately \$75,000,000 may be provided with funds now in its treasury or to become available from internal sources, leaving approximately \$55,000,000 to be obtained from other sources.

The testimony indicates that applicant is of the opinion it should undertake the sale of shares of common stock at this time, rather than some other form of security, in order to improve its capital structure. In this connection, it reports its capital ratios as of December 31, 1950, and after giving effect to the proposed issue, as follows:

	<u>Dec. 31, 1950</u>	<u>Pro Forma</u>
Bonds	53.0%	51.2%
Preferred stock	20.9	20.1
Equity capital	<u>26.1</u>	<u>28.7</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The record shows that applicant proposes to offer the 1,419,562 shares of stock to the holders of the presently outstanding shares of common stock of record at the close of business on March 13, 1951, in proportion to the number of shares of common stock then held, being at the rate of one new share for each seven now held; that it plans to issue transferable warrants on or before March 19, 1951, evidencing rights to subscribe for the additional shares, which rights shall expire at the close of business on April 4, 1951; and that it

will issue and sell its shares upon subscription and payment of the purchase price in accordance with the terms of such warrants. In order to insure the sale of all the shares of stock, the company intends to enter into an underwriting agreement for the sale to underwriters of the shares not subscribed and paid for pursuant to the offering to the stockholders.

The record shows that the proposed underwriting agreement contemplates that the underwriters will purchase said unsubscribed shares from applicant at the same price at which such shares first are offered to stockholders, and in addition will pay to applicant an amount equivalent to 65% of the excess over such price at which they may dispose of such shares. If any unsubscribed shares shall remain unsold by the underwriters at the close of business after the expiration of 20 full business days following the stockholders' subscription period, such shares shall be deemed to have been sold at the average sales price of applicant's common stock on the New York Stock Exchange on that day, or, if no shares are traded on that day, then at the closing bid price on such exchange. As compensation to the underwriters for their commitments and obligations, applicant will pay to them the sum of 35¢ a share for each of the 1,419,562 shares plus an amount equal to 50¢ a share for each share up to a maximum of 250,000 shares (or such greater number of shares as may be designated by applicant prior to the close of business on April 3, 1951), acquired by the underwriters upon the exercise of subscription warrants purchased by or for the accounts of the underwriters.

Applicant has filed with the Securities and Exchange Commission a registration statement. While at this time it contemplates the sale of its shares of stock at \$31 a share, it reports that it will be unable to determine the exact price until March 13, 1951, when it hopes the statement will become effective, and accordingly it seeks

at this time a preliminary order approving the issue of said shares. In due course it will file a supplemental application showing the price at which it proposes to dispose of its stock and will request a final order in this proceeding.

The issue of the shares of stock to applicant's stockholders pursuant to their preemptive rights is exempt from the requirements of the Commission's competitive bidding rule. Applicant asks that an order exempting from such requirements the issue of the unsubscribed shares be made at this time. The number of such shares to be sold to underwriters is indefinite, of course, due to the offering first to be made to the present stockholders.

It clearly appears that applicant will have need for the proceeds from its shares of stock to enable it to proceed with its construction program, and that under the conditions surrounding this particular proposed issue, as set forth in the record in this proceeding, the Commission is warranted in exempting the issue of said shares of stock, as requested, from the requirements of its competitive bidding rule.

Applicant's presently outstanding shares of common stock are owned by more than 93,700 stockholders. It is unable at this time to state how many of said stockholders will exercise the subscription rights to be granted to them. It believes, however, that they will be exercised by such a large number as will warrant it to ask relief from filing with the Commission a report required by the Commission's General Order No. 24-A, which, among other things, calls for the name of each purchaser of stock. Applicant will keep in its office, as a permanent record, a full and complete record with respect to the subscriptions for shares of its common stock and certificates to be issued. Following the closing date for the exercise

by the stockholders of their rights to subscribe for additional shares of common stock, applicant proposes to make a detailed analysis of the entire transaction and to submit a copy thereof to the Commission.

The Commission will accept such analysis in lieu of a report, or reports, under General Order No. 24-A.

### ORDER

A public hearing having been held in this matter and the Commission having considered the evidence submitted and being of the opinion that the money, property or labor to be procured or paid for by the issue of 1,419,562 shares of common stock by Pacific Gas and Electric Company is reasonably required by it 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 this application should be granted, subject to the provisions of this order; therefore,

IT IS HEREBY ORDERED as follows:

1. Pacific Gas and Electric Company, after the effective date hereof and on or before December 31, 1951, may issue, sell and deliver, upon subscription pursuant to rights evidenced by transferable warrants to be issued to the holders of record of its common stock at the close of business on March 13, 1951, not exceeding 1,419,562 shares of its common stock at such price as the Commission hereafter may fix in a supplemental order in this proceeding.

2. Pacific Gas and Electric Company, after the effective date hereof and on or before December 31, 1951, may issue and sell to underwriters such of said 1,419,562 shares of common stock as have not been subscribed and paid for pursuant to the offering to

applicant's stockholders, such unsubscribed shares to be sold at such price as the Commission hereafter may fix in a supplemental order in this proceeding. The issue of said shares of stock is hereby exempted from the requirements 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.

3. Pacific Gas and Electric Company shall use the net proceeds to be received from the issue and sale of said 1,419,562 shares of common stock to reimburse its treasury in part on account of capital expenditures made on or prior to November 30, 1950, and/or to pay in part the cost of additions, extensions, betterments or improvements to its plants, properties and facilities made or to be made subsequent to November 30, 1950.

4. The authority herein granted to issue and sell said 1,419,562 shares of common stock will become effective when the Commission by a supplemental order shall have fixed the price at which said shares of stock may be sold. All other authority granted by this order is effective upon the date hereof.

5. Pacific Gas and Electric Company shall, within six (6) months after the issue, sale and delivery of said shares of stock or any part thereof, file with the Commission a copy of the analysis referred to in the preceding opinion in lieu of a report under General Order No. 24-A, together with a statement showing the number of shares sold to underwriters, and the expenses incurred by applicant in connection with the issue and sale of said 1,419,562 shares of stock.

Dated at San Francisco, California, this 12<sup>th</sup> day of March, 1951.

*R. F. Zimmerman*  
*Justice F. Quackenbush*  
*Harold P. Kula*  
*Benjamin L. Lott*  
*John C. McNeill*  
 Commissioners