

ORIGINAL

Decision No. 45845

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SOUTHERN CALIFORNIA GAS COMPANY, a)
corporation, for an order authorizing)
it to issue and sell five hundred)
thousand (500,000) shares of Common)
Stock at par aggregating Twelve)
Million Five Hundred Thousand Dollars)
(\$12,500,000) under the provisions)
of Section 52 of the Public Utilities)
Act.)
-----)

Application
No. 32425

L. T. Rice, for applicant; Roger Arnebergh, Assistant
City Attorney, for the City of Los Angeles,
interested party.

O P I N I O N

In this application the Commission is asked to make an order authorizing Southern California Gas Company to issue 500,000 shares of common stock, of the par value of \$25 each and of the aggregate par value of \$12,500,000, and to sell said shares at par to Pacific Lighting Corporation pursuant to the preemptive rights possessed by it.

Applicant reports that it has need for the proceeds to be received through the issue and sale of said shares of stock for the purpose of paying outstanding indebtedness and of financing, in part, the acquisition of property or the completion, construction, extension or improvement of its facilities. It estimates its cash requirements for its 1951 construction budget, as shown in some detail in Exhibit B filed in this proceeding, at \$37,865,700, and its sources of funds to meet these requirements as follows:

Cash in hands of Pacific Lighting Corporation at January 1, 1951	\$ 3,834,214
Sale of 500,000 shares of Common Stock at \$25 a share (proposed sale)	12,500,000
Depreciation reserve funds (1951)	4,400,000
Balance from sale of senior securities and available earnings	<u>17,131,486</u>
Total	<u>\$37,865,700</u>

The application shows that on April 30, 1951, applicant was indebted to Pacific Lighting Corporation in the amount of approximately \$225,000, and that it is estimated such indebtedness will be increased to \$3,600,000 at the close of June, 1951. It appears that it has been applicant's practice to provide its capital funds temporarily with moneys borrowed from Pacific Lighting Corporation and thereafter to repay such borrowings through the issue of first mortgage bonds, preferred and common stock. Applicant's capital ratios as of May 31, 1951, and after giving effect to the proposed issue of stock, are as follows:

	<u>May 31, 1951</u>	<u>Pro Forma</u>
Bonds	45.9%	42.9%
Preferred stock	12.6	11.7
Equity capital	<u>41.5</u>	<u>45.4</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The record shows that applicant will be required to obtain funds from external sources in order to proceed with its construction program. The issue of common stock, as now proposed, should place applicant in a position where it can engage readily in debt financing at a later date, should conditions prove favorable to such action. It will be noted that applicant will be required to obtain approximately \$17,000,000 from additional financing during the latter part of the year, and it appears that it is giving consideration at this time to the issue of bonds for this purpose. With the capital structure applicant will have following the issue of common stock, as here proposed, the issue of \$17,000,000 of bonds would bring its debt

ratio up to approximately 50%.

At the hearing held in this proceeding on June 11, 1951, an appearance was entered on behalf of the City of Los Angeles by its assistant city attorney, who stated that the city offered no objection to the sale of the common stock in accordance with the application, provided that future financing be so arranged as to restore and maintain a debt ratio of approximately 50% and that the earnings per share allowed the company be commensurate with the price at which such stock is sold. He stated that if the Commission should see fit to authorize an operating utility to sell its common stock to its holding company at par, then future earnings should be so regulated that under a reasonable dividend payout practice, earnings shall be sufficient only to provide for the payment of dividends which bear the same relation to such selling price that dividends paid by comparable utilities bear to the market price of the stock of such comparable utilities.

However, no evidence was introduced in support of the city's position. The fixing of rates is not an issue in this proceeding. Moreover, it has not been the practice of the Commission to base its orders prescribing rates for service on outstanding securities or on interest and dividend requirements. In making the order in this proceeding, the Commission again desires to place applicant upon notice that it will not regard the dividends paid on its common stock as determining or fixing the rate of return which applicant should be allowed to earn on its investment in its utility plant, or as representing the cost of money obtained through the issue of its common stock.

O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence submitted

and being of the opinion that the application should be granted, as herein provided; that the money, property or labor to be procured or paid for through the issue and sale of the common stock herein authorized is reasonably required by applicant for the purposes specified herein; and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Southern California Gas Company, after the effective date hereof and on or before August 31, 1951, may issue and sell, to the holder of its common stock, at not less than their par value, 500,000 shares of its common capital stock of the aggregate par value of \$12,500,000, said shares to be offered to said holder pursuant to the preemptive rights contained in applicant's articles of incorporation.

2. Southern California Gas Company shall use the proceeds received from the issue and sale of said shares of common stock to pay indebtedness to Pacific Lighting Corporation and to meet, in part, its 1951 construction requirements.

3. Southern California Gas Company shall file with the Commission, within thirty (30) days after the issue of said shares of stock, a statement showing the name of the purchaser of said shares, the consideration received, and the date of issue. Thereafter, it shall file monthly reports showing the purposes for which it has expended the proceeds received.

4. The authority herein granted will become effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 19th day of
June, 1951.

W. J. [Signature]
Harold K. [Signature]
[Signature]
Commissioners