

ORIGINAL

Decision No. 47204

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 deliver	:	
shares of its common capital stock in the)	Application
manner, to the amount, and for the pur-	:	No. 33410
poses set forth herein; and relieving)	
applicant of the necessity of complying	:	
with the requirements of Section A, 1)	
of said Commission's General Order No.	:	
24-A.)	
-----	:	

Ralph W. DuVal and Frederick T. Searls, for applicant.

O P I N I O N

In this proceeding, Pacific Gas and Electric Company seeks authorization to issue, sell and deliver not exceeding 2,271,300 shares of its common capital stock of the aggregate par value of not exceeding \$56,782,500.

The record shows that applicant proposes to offer the shares of stock, at a price hereafter to be fixed, to the holders of the presently outstanding shares of common stock of record at the close of business on June 10, 1952, at the rate of one new share for each five then held; that it plans to issue transferable warrants on or before June 16, 1952, evidencing rights to subscribe for the additional shares, which rights shall expire at the close of business on July 2, 1952; 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. ⁽¹⁾ In order to insure the sale of all the shares of stock, the company desires 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 shareholders.

It appears tentative arrangements provide that the underwriters will purchase the unsubscribed shares from applicant at the same price at which such shares first are offered to shareholders, 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 shareholders' 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, the tentative arrangements provide that applicant will pay to them the sum of ~~40¢~~^{45¢} a share for each of the 2,271,300 shares plus an amount equal to 70¢ a share for each share acquired by the underwriters upon the exercise of subscription warrants purchased by or for the accounts of the underwriters.

Applicant proposes to use the net proceeds from its shares of stock to reimburse its treasury, to repay bank loans which may be outstanding, and to provide the cost of constructing additions, betterments, extensions and improvements to its plants, properties and facilities. It reports that as of February 29, 1952, its capital expenditures for which it had not been reimbursed through the issue

(1)

At the close of business on May 1, 1952, applicant had outstanding 11,356,498 shares of common stock which were held by 104,200 shareholders whose individual holdings ranged from one share to more than 1,000 shares, the holdings of a majority being less than 100 shares each.

of securities amounted to \$300,375,371.88 and that the unexpended balances of authorizations for capital additions and improvements in progress of construction aggregated \$228,497,393.80, segregated to departments as follows:

Electric	\$196,681,053.55
Gas	27,675,713.69
Water	549,353.48
Steam	9,285.61
Other physical property and plant held for future use	4,459.52
Common utility	<u>3,577,527.95</u>
Total	<u>\$228,497,393.80</u>

It appears that not all the construction jobs now in progress will be completed this year and that additional work will be authorized from time to time.

Applicant reports that in order to meet increased demands on its system and to provide for anticipated growth, it has been engaged in an extensive construction program following the close of the war, that during the years 1946 to 1951, inclusive, its expenditure for construction amounted to more than \$815,000,000, and that during this period it issued bonds and shares of preferred and common stock of the aggregate par value of approximately \$657,000,000. Applicant estimates its construction costs at \$450,000,000 during the years 1952 to 1954, inclusive, of which \$162,000,000 is estimated for 1952.

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 and to place itself in a more favorable position to engage in additional financing to meet its requirements. In this connection, it reports its capital ratios as of March 31, 1952, adjusted to give effect to the issue of \$7,667,000 of preferred stock

on May 1, 1952, and after giving effect to the proposed issue of common stock, as follows:

	<u>Mar. 31, 1952,</u> <u>Adjusted</u>	<u>Pro Forma</u>
Bonds	50.6%	48.2%
Preferred stock	22.3	21.3
Equity capital	<u>27.1</u>	<u>30.5</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The issue of the shares of stock to applicant's shareholders pursuant to their preemptive rights is exempt from the requirements of the Commission's competitive bidding rule. Applicant asks that an order be made at this time exempting from such requirements the issue of the unsubscribed shares.

In support of the request for exemption, a witness called by applicant testified that more than 300 underwriting firms will be involved in the proposed agreement for the sale of the shares of stock; that in his opinion, considering the size of the proposed issue, which is said to be the largest ever undertaken by an electric utility, it would be doubtful if a second group could be formed to submit bids, should competitive bidding be required; and that better results can be obtained by entering into a negotiated underwriting than could be obtained at competitive bidding in that the underwriters would be in a position to acquire rights during the subscription period and exert a stabilizing effect on the market price and, also, in that the issuing company would have some voice with regard to the placement of the shares by underwriters. The proposed agreement provides that the underwriters, so far as feasible, will give preference to orders from residents of California.

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 shareholders. Exhibit No. 13 filed in this proceeding shows

that applicant has offered shares of common stock to its shareholders during each of the last five years. The 1950 and 1951 offerings were underwritten and as to those issues, shareholders subscribed to 75.39% of the number of shares to which they were entitled in 1950 and to 51.91% in 1951. The record shows that the number of common shareholders in California was increased by 8,970 in 1951 and outside California by 847.

Under the circumstances surrounding this issue the Commission is warranted in granting the exemption requested. It clearly appears that applicant will have need for the proceeds from the sale of its shares of stock to enable it to proceed with its construction program.

Applicant is not in a position at this time to fix the price at which it proposes to offer its shares of stock and accordingly it now seeks only a preliminary order approving the issue of said shares. At a later date 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.

O R D E R

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 2,271,300 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, 1952, 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 June 10, 1952, not exceeding 2,271,300 shares of its common stock, such shares to be offered to the holders of applicant's shares of common stock on the basis set forth in this application, 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, 1952, may issue and sell to underwriters such of said 2,271,300 shares of common stock as have not been subscribed and paid for pursuant to the offering to applicant's shareholders, 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.

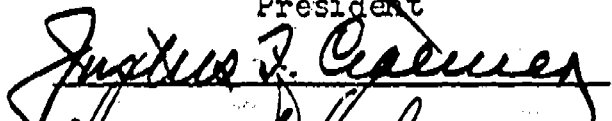
3. Pacific Gas and Electric Company shall use the net proceeds to be received from the issue and sale of said 2,271,300 shares of common stock to reimburse its treasury in part on account of capital expenditures made on or prior to February 29, 1952, to repay bank loans which may be outstanding, and/or 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 February 29, 1952.


4. The authority herein granted to issue and sell said 2,271,300 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.

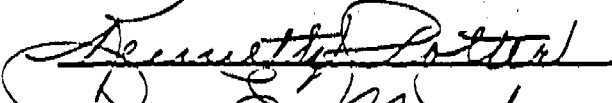
5. On or before December 31, 1952, Pacific Gas and Electric Company shall file with the Commission a statement showing the number of common shareholders of record on June 10, 1952; the number of subscriptions by shareholders, by others who purchased rights to subscribe, and by underwriters upon exercise of rights; the number of shares subscribed by such shareholders, by others and by underwriters during the subscription period and the gross proceeds received; the number of unsubscribed shares purchased by underwriters; and the expenses incurred by applicant in connection with the issue and sale of the 2,271,300 shares of stock. Such statement shall be filed in lieu of a report, or reports, under General Order No. 24-A.

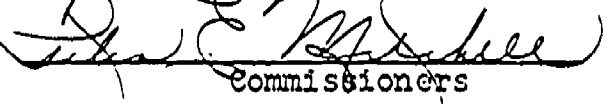
Dated at San Francisco, California, this 27th day of May, 1952.



President








Commissioners