

Decision No. 48659

ORIGINAL

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 800,000 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. 34353

Chickering & Gregory, by Sherman Chickering,
for applicant.

O P I N I O N

San Diego Gas & Electric Company has filed this applica-
tion for authorization to issue and sell 800,000 shares of its common
stock of the par value of \$10 each and of the aggregate par value of
\$8,000,000.

The application was filed with the Commission on May 15,
1953. Thereafter, notice having been given, a public hearing was
held before Examiner Coleman in San Francisco on May 27, 1953, at
which time the matter was taken under submission. The Commission has
received no protests to the granting of the application.

For a number of years applicant has been engaged in a
substantial program of expansion of its facilities. It appears that
its permanent financing of its expenditures has been accomplished by
the issue of first mortgage bonds and shares of preferred and common

stock, its capital structure as of December 31, 1952, including retained earnings, being indicated in the following tabulation:

First mortgage bonds -			
3-3/8's, due 1970	\$16,000,000		
3's, due 1978	10,000,000		
3-1/4's, due 1982	<u>12,000,000</u>		
Total first mortgage bonds		\$38,000,000	41%
Preferred stock -			
Cumulative 5%	7,500,000		
Cumulative 4-1/2%	6,000,000		
Cumulative 4.4%	<u>6,500,000</u>		
Total preferred stock		20,000,000	21%
Common stock equity -			
Common stock	24,000,000		
Premiums on stock	4,221,369		
Earned surplus	<u>7,102,093</u>		
Total common stock equity		<u>35,323,462</u>	<u>38%</u>
Totals		<u>\$93,323,462</u>	<u>100%</u>

The outstanding common stock consists of 2,400,000 shares of the par value of \$10 each. For a number of years applicant has paid annual dividends of \$.80 a share, being at the rate of 8% of the par value. The common shareholders do not enjoy preemptive rights with respect to offerings of additional shares.

The application shows that applicant has need for additional funds from external sources to pay outstanding bank loans and to reimburse its treasury for moneys expended from income for capital purposes and thereafter to provide, in part, the cost of new facilities. Applicant reports its uncapitalized costs at the close of 1952 for which it had not been reimbursed through the issue of securities at \$12,719,257 and its presently outstanding bank loans at \$3,200,000, which amount it expects will be increased to \$5,600,000. In Exhibit B it sets forth in some detail its budgeted capital expenditures for 1953, a summary of the same being as follows:

Electric -	
Production	\$ 5,124,300
Transmission	2,150,200
Distribution	5,194,300
Gas -	
Production	63,900
Storage	921,600
Transmission	23,000
Distribution	2,358,500
Steam	139,000
General	<u>1,712,400</u>
Total	<u>\$17,687,200</u>

It appears that applicant has considered conditions presently prevailing and has concluded that its capital requirements can best be met by the issue at this time of shares of common stock, rather than some other form of security. The effect of the proposed financing, if completed, will be to reduce applicant's bond ratio to approximately 36% and to increase the equity to approximately 45% but on this point the record shows that applicant will have to resort to additional bank borrowings during the latter part of the year and that it anticipates its new construction will continue at a high level in 1953 and succeeding years. The obtaining of additional equity capital at this time thus should provide a broader base upon which debt financing in the future can rest.

Upon reviewing the record we are of the opinion that applicant has need for additional funds from outside sources and that the issue by applicant of shares of common stock at this time is desirable. There remains to be considered, however, the terms and conditions under which applicant proposes to dispose of its stock.

Applicant desires to accord to the present shareholders the opportunity to acquire the new shares and because of the absence of preemptive privileges in its articles of incorporation it seeks from the Commission an order exempting the proposed offering from competitive bidding so as to enable it to proceed with its financing.

program. If such exemption is obtained, it intends to offer the new shares at such price as hereafter may be fixed, but at not less than par, to the present holders of the existing common shares of record at the close of business on June 9, 1953, at the rate of one new share for each three then held, and to issue transferable warrants on or before June 15, 1953, the rights to expire on July 2, 1953. It proposes to offer not to exceed 100 shares of such shares as shall not have been subscribed and paid for pursuant to the offering to shareholders, to each of its employees for cash at the same price at which offered to shareholders.

To insure the sale of the entire block of 800,000 shares, applicant desires to enter into an underwriting agreement for the sale of such of said shares as shall not have been subscribed and paid for pursuant to the offerings to the shareholders and employees. Tentative arrangements provide for the underwriters to acquire such remaining shares at the same price at which they will be offered to shareholders, and to pay to applicant the excess which they may receive in disposing of the same over the purchase price plus \$20,000. As compensation, the underwriters, according to the tentative arrangements, will receive from applicant the sum of 15 cents a share for each of the 800,000 shares plus 30 cents a share for each share acquired by them upon the exercise of warrants by and for their accounts.

In support of the request for exemption a witness called by applicant testified that the management had received many requests for rights offerings, as here proposed, and requests from employees for the opportunity to purchase shares, that the present market is favorable for an issue under the terms here proposed, that such terms should result in a low expense incident to the issue and that the

offering would tend to distribute the new shares in its service area and in this state.

Upon the basis of the record developed in this particular proceeding we are of the opinion we are warranted in granting applicant's request for exemption from competitive bidding and in making a preliminary order at this time with respect to the proposed issue. We will retain jurisdiction in this matter, however, and will consider it further upon the filing by applicant of a supplemental application in this proceeding setting forth the price at which it intends to offer its shares and its final underwriting arrangements.

O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence 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 by the issue and sale of the shares of 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. The issue by San Diego Gas & Electric Company of not exceeding 300,000 shares of common stock hereby is exempted from the competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, in Case No. 4761, provided that applicant receive for said shares a price satisfactory to the Commission.
2. San Diego Gas & Electric Company may issue, sell and deliver, on or before December 31, 1953, 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 9, 1953, not exceeding 800,000 shares of common stock (par value \$10 a share) of the aggregate par value of not exceeding \$8,000,000, such stock to be offered to the holders of applicant's common stock on the basis stated in this application and at such price as the Commission may fix by a supplemental order to be issued herein.

3. San Diego Gas & Electric Company may issue, sell and deliver, on or before December 31, 1953, not to exceed 100 of such of said 800,000 shares of common stock as shall not have been subscribed and paid for pursuant to the above mentioned offering to stockholders, to each regular employee (including officers) on June 9, 1953, for cash at the subscription price at which said 800,000 shares shall be offered to stockholders as fixed by the Commission in a supplemental order to be issued herein.

4. San Diego Gas & Electric Company may issue and sell, on or before December 31, 1953, pursuant to an underwriting agreement hereafter to be entered into by applicant, such of said 800,000 shares of common stock as have not been subscribed and paid for pursuant to the aforementioned offerings to applicant's stockholders and employees, at the price hereafter to be fixed by the Commission in a supplemental order herein.

5. San Diego Gas & Electric Company shall use the proceeds to be derived from the issue and sale of said common stock: (a) for the retirement and discharge of all the promissory notes issued and outstanding under applicant's loan agreement on the date of such issue and sale, and (b) to reimburse applicant for moneys actually expended from income or from other moneys in its treasury not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes or other evidences of indebtedness, for the acquisition of property or for the construction,

completion, extension or improvement of its facilities.

6. On or before January 31, 1954, San Diego Gas & Electric Company shall file with the Commission a report showing the number of common shareholders of record on June 9, 1953, the number of shares subscribed by shareholders, by employees, by others upon purchase of rights to subscribe, and by underwriters, the expenses incurred in connection with the issue and sale of the 800,000 shares, and the account or accounts to which such expenses were charged, such report to be filed in lieu of a report, or reports, under General Order No. 24-A.

7. The authority herein granted to issue shares of stock will become effective when the Commission by supplemental order shall have fixed the price at which such shares may be sold. All other authority granted by this order will become effective upon the date hereof.

Dated at San Francisco, California, this 1st day of June, 1953.

R. B. [Signature]
President

Justin J. Cooney
Harold H. [Signature]

[Signature]
Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.