

ORIGINAL

Decision No. 49050

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 manner, to the amount,)
 and for the purposes 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.)
 (Financial - Common Stock))
 -----)

Application
No. 34662

Ralph W. DuVal and John C. Morrissey, for applicant.

O P I N I O N

Pacific Gas and Electric Company has filed this application for authorization to issue, sell and deliver 1,946,829 shares of its common stock, of the par value of \$25 each and of the aggregate par value of \$48,670,725.

The application was filed with the Commission on August 20, 1953. A public hearing was held before Examiner Coleman in San Francisco on September 3, 1953, at which time the matter was taken under submission.

The purpose of the proposed financing is to provide applicant with funds to reimburse its treasury, to repay bank loans which may be outstanding, and to provide the cost of additions to, extensions of, and betterments or improvements to its plants, properties and facilities. Applicant reports that up to May 31, 1953, it had expended for capital purposes the sum of \$332,366,936.12 which had

not been provided by the issue of permanent securities, such costs having been met primarily with depreciation money and earned surplus, that subsequent to May it had issued and now has outstanding short-term bank loans in the principal amount of \$12,000,000, and that it has need for additional funds upon replenishing its treasury to improve its cash position through the payment of its short-term indebtedness and to proceed with its construction program. In this connection, it reports the unexpended balances of authorizations for capital additions and improvements in process of construction in the amount of \$260,165,492.45, segregated to departments as follows:

Electric	\$208,751,193.34
Gas	45,146,817.17
Water	830,458.18
Steam	105,654.22
Other physical property and plant held for future use	1,000.00
Common utility	<u>5,330,369.54</u>
Total	<u>\$260,165,492.45</u>

The testimony shows that not all the jobs now under construction will be completed this year and that additional work will be authorized from time to time. Applicant expects that during the twelve months ending May 31, 1954, its expenditures for capital additions and improvements will equal or exceed the sum of \$150,000,000, and that of this amount less than one-third will be provided with funds now in its treasury and funds expected to be available from internal sources.

It is apparent that applicant will be called upon to engage in additional financing in the future. Applicant is of the opinion that it should undertake the sale of shares of common stock at this time, rather than some other form of security, in order to maintain and improve its capital structure. Its capital ratios as of June 30, 1953, and as adjusted to give effect to the proposed issue of common stock, are reported as follows:

	<u>June 30, 1953</u>	<u>Pro Forma</u>
Bonds	49.8%	47.6%
Preferred stock	20.2	19.3
Equity capital	<u>30.0</u>	<u>33.1</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The record shows that applicant proposes to offer its shares of stock, at a price which has not been determined as yet but will be fixed at a later date, to the holders of the presently outstanding shares of common stock of record at the close of business on September 15, 1953, pursuant to their preemptive rights, at the rate of one new share for each seven then held, that it plans to issue transferable warrants on or before September 21, 1953, to such stockholders to evidence their respective rights to subscribe for the shares to be offered, that such rights shall expire at the close of business on October 6, 1953, and that applicant 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, applicant intends, if so authorized by the Commission, 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.

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 seeks an order at this time exempting from such requirements the issue and sale to underwriters of the unsubscribed shares and in connection with its request it states that it has no agreement with any underwriter as to the price of its shares but that it is of the opinion better results can be obtained by it by means of a negotiated underwriting for the reason, among others, that the size of the offering does not lend itself to competitive bidding. The testimony shows that most of the underwriting firms in the country handling utility equity securities

will be involved in the proposed agreement so that it is considered doubtful by applicant if a second group could be formed to submit bids, should competitive bidding be required. The testimony shows that in a negotiated underwriting, as here proposed, the underwriters can acquire rights during the stockholders' subscription period and thereby exert a stabilizing effect on the market price which would be absent under competitive arrangements. Then, too, the number of shares to be sold to underwriters is indefinite due to the offering first to be made to the shareholders.

Applicant is of the opinion that a better distribution of its shares can be effected by means of the arrangement it now proposes. The record shows that applicant has been successful in disposing of substantial blocks of stock during 1950, 1951 and 1952 by means of underwritten stockholders' offerings somewhat similar to the one proposed in this proceeding. A summary of the results of these earlier offerings is indicated in the following tabulation:

	<u>1950</u>	<u>1951</u>	<u>1952</u>
Number of shares offered	1,656,156	1,419,562	2,271,300
Basis of offering	1 for 5	1 for 7	1 for 5
Results of offering -			
Subscribed by shareholders	75.39%	51.91%	65.42%
Subscribed by others upon purchase of rights	7.73	2.46	4.07
Subscribed by underwriters upon purchase of rights	14.30	42.52	28.23
Unsubscribed--purchased by underwriters	<u>2.58</u>	<u>3.11</u>	<u>2.28</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

From Exhibit 10, it appears that at present 58% of applicant's stockholders, owning more than 54% of the outstanding common stock, are residents of California and that the proportions of such participation and holdings have been increasing. It is to be provided in the proposed underwriting agreement that the underwriters will endeavor, so far as possible, to give preference to orders by residents of the state to purchase shares.

From a review of the record in this particular proceeding we are of the opinion that we are warranted in granting the requested exemption and in making a preliminary order at this time authorizing the issue and sale of the shares of stock. At a later date, upon the filing of a supplemental application by applicant showing the price at which it proposes to dispose of its shares, we will give further consideration to this application.

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 1,946,829 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, 1953, 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 September 15, 1953, not exceeding 1,946,829 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 and 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, 1953, may issue and sell to underwriters such of said 1,946,829 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 1,946,829 shares of common stock to reimburse its treasury in part on account of capital expenditures made on or prior to May 31, 1953, 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 May 31, 1953.

4. The authority herein granted to issue and sell said 1,946,829 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, 1953, Pacific Gas and Electric Company shall file with the Commission a statement showing the number of common shareholders of record on September 15, 1953; 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 1,946,829 shares of stock. Such statement shall be filed in lieu of a report, or reports, under General Order No. 24-A.

6. As soon as available, applicant shall file with the Commission five copies of its final prospectus in connection with the offering of said shares of stock.

Dated at San Francisco, California, this 4th day of September, 1953.

[Signature]
President

[Signature]
[Signature]

Commissioners

Kenneth Potter
Commissioner Harold P. Huls, being necessarily absent, did not participate in the disposition of this proceeding.