

Decision No. 49249

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHERN COUNTIES GAS COMPANY OF)
 CALIFORNIA, a corporation, for an)
 order authorizing it to issue and)
 sell 75,000 shares of its Common)
 Stock at the par value of \$100 a)
 share, aggregating \$7,500,000, under)
 the provisions of Section 818 of the)
 Public Utilities Code of the State)
 of California.)
 -----)

Application
No. 34785

O P I N I O N

Southern Counties Gas Company of California has filed this application for authorization to issue and sell, at par, 75,000 shares of its common stock of the par value of \$100 each and of the aggregate par value of \$7,500,000.

The purpose of the proposed issue is to liquidate advances from Pacific Lighting Corporation which were used by applicant for the acquisition of property or for the construction, completion, extension or improvement of its facilities. Applicant reports that on August 31, 1953, it was indebted to Pacific Lighting Corporation in the amount of \$6,205,060 and it estimates that this indebtedness will increase to approximately \$8,719,000 by October 31, 1953. The application shows that Pacific Lighting Corporation is the owner of all of applicant's presently outstanding shares of stock.

Information before the Commission shows that for some years applicant's business has been increasing rapidly and that it has been faced with a continuing program of expansion of its facilities and

extension of its lines to meet demands of customers in its service area. The following tabulation, compiled from applicant's annual reports for the last five years, shows its net increase in plant accounts for each of the years and its operating revenues, net income and number of customers:

	<u>Net Increase in Plant</u>	<u>Operating Revenues</u>	<u>Net Income</u>	<u>Customers Dec. 31</u>
1948	\$ 6,768,785	\$22,192,734	\$1,793,312	303,808
1949	10,463,819	26,340,090	1,856,483	329,235
1950	8,553,975	29,282,768	3,390,701	359,510
1951	10,554,976	31,770,659	2,841,315	392,312
1952	8,946,541	35,099,484	3,032,905	423,215

Applicant has estimated its total construction expenditures during 1953 at \$15,640,385 and during 1954 at \$11,834,500.

It has been applicant's practice to meet its capital requirements, in part, with advances from Pacific Lighting Corporation and, from time to time, to refinance itself with proceeds from the sale of bonds or common stock. Its capital ratios as of August 31, 1953, and as adjusted to give effect to the presently proposed financing, are as follows:

	<u>Aug. 31, 1953</u>	<u>Pro Forma</u>
Bonds	46.4%	42.1%
Common stock	42.7	47.9
Surplus	<u>10.9</u>	<u>10.0</u>
Totals	<u>100.0%</u>	<u>100.0%</u>

It appears that applicant's articles of incorporation confer on its existing shareholders the preemptive right to purchase any additional shares of common stock which may be authorized and issued and that Pacific Lighting Corporation, as the sole shareholder, will be entitled to subscribe for the entire block of shares covered by this application. Applicant reports that it desires to issue such shares at this time, rather than some other form of security, in order to improve the position of its bonds in its capital structure and

because it desires to defer the issue of additional bonds until the development of a more favorable bond market than that presently prevailing.

In presenting this matter to the Commission applicant has filed its balance sheet indicating its financial position as of August 31, 1953. A summary statement of the same is as follows:

Assets and Other Debits

Gas plant less depreciation reserve		\$89,075,158.25
Other investments		216,344.61
Current assets -		
Cash and deposits	\$ 1,871,685.00	
Notes and accounts receivable	3,173,210.31	
Materials and supplies	1,548,924.84	
Prepayments	<u>267,938.55</u>	
Total current assets		6,861,758.70
Deferred debits		<u>123,256.96</u>
	Total	<u>\$96,276,518.52</u>

Liabilities and Other Credits

Bonds		\$35,249,000.00
Current liabilities		14,134,106.41
Customers' advances for construction		1,060,226.85
Miscellaneous reserves		3,365,247.07
Contributions in aid of construction		1,374,562.81
Deferred credits		308,876.17
Common stock equity -		
Common stock	\$32,500,000.00	
Surplus	<u>8,284,499.21</u>	
Total common stock equity		<u>40,784,499.21</u>
	Total	<u>\$96,276,518.52</u>

The advances from Pacific Lighting Corporation are included on the balance sheet among the current obligations. It is noted that as of the date of the statement applicant reported current assets of \$6,861,758.70 and current liabilities of \$14,134,106.41.

A review of this proceeding clearly indicates that applicant has need for additional funds from external sources and that in addition it will be called upon to raise substantial sums in the future as it proceeds with its construction program. The issue of

shares of stock at this time will improve its financial position through the reduction of a like amount of short-term borrowings and will provide a broader base of equity capital in its structure which should assist it in future debt financing. In our opinion applicant should avail itself of its present opportunity to obtain funds from the sale of such shares and accordingly we will enter an order approving the application.

In making this order we wish to place applicant upon notice that we will not regard the price to be paid for the shares of stock as measuring the value of such shares nor the dividend paid by it as determining or fixing the rate of return which applicant should be allowed to earn or as representing the cost of money obtained from equity capital.

ORDER

The Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the common stock herein authorized is reasonably required by applicant for the purpose specified herein, and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Southern Counties Gas Company of California, on and after the effective date hereof and on or before May 31, 1954, may issue and sell 75,000 shares of its common stock, at not less than

\$100 a share, and use the proceeds for the purpose set forth in this proceeding, such shares to be offered to applicant's existing stockholder pursuant to the preemptive right possessed by such stockholder under applicant's articles of incorporation.

2. Southern Counties Gas Company of California shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

3. The authority herein granted will become effective 20 days after the date hereof.

Dated at Los Angeles, California, this 27th day of October, 1953.

R. T. [Signature]
President

Justus J. [Signature]
[Signature]
[Signature]
[Signature]
Commissioners