

ORIGINAL

Decision No. 49536

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 authoriz-)
 ing it to issue and sell 600,000)
 shares of its Common Stock at the)
 par value of \$25 a share, aggregat-)
 ing \$15,000,000, under the provi-)
 sions of Section 818 of the Public)
 Utilities Code of the State of Cali-)
 fornia.)
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Application
No. 34978

O P I N I O N

Southern California Gas Company has filed this applica-
 tion for authorization to issue 600,000 shares of its common stock,
 of the par value of \$25 each and of the aggregate par value of
 \$15,000,000, and to sell said shares at their par value to Pacific
 Lighting Corporation, the holder of all its presently outstanding
 shares of common stock.

The purpose of the proposed financing is to liquidate
 applicant's indebtedness to Pacific Lighting Corporation and to
 finance in part its 1954 expenditures for the acquisition of proper-
 ty or for the construction, completion, extension or improvement
 of its facilities. Applicant estimates its cash requirements for
 capital purposes during 1954 in the amount of \$28,486,000, as set
 forth in some detail in Exhibit B, and its indebtedness to its
 parent company at or about the first of 1954 in the amount of
 \$7,816,000. A summary of its proposed expenditures and the esti-
 mated sources of funds is as follows:

| | | |
|--|------------------|---------------------|
| Gross construction budget - 1954 | | \$28,296,000 |
| Net cash purchase requirements, 1954, on purchase of Del Rey Storage Field | | <u>890,000</u> |
| | | 29,186,000 |
| Less non-cash items | | <u>700,000</u> |
| Cash capital requirements for 1954 | | <u>\$28,486,000</u> |
| Sources of funds: | | |
| Depreciation reserve funds | | \$ 6,250,000 |
| Sale of 600,000 shares of common stock at \$25 a share (proposed sale) | \$15,000,000 | |
| Less indebtedness to Pacific Lighting Corporation on January 1, 1954 | <u>7,816,000</u> | 7,184,000 |
| Estimated recovery in connection with freeway or other governmental work | | 500,000 |
| Balance from sale of senior securities or from temporary borrowings | | <u>14,552,000</u> |
| Total | | <u>\$28,486,000</u> |

It has been applicant's practice to finance itself temporarily with amounts advanced by Pacific Lighting Corporation and from time to time to refinance such advances with permanent securities. Applicant's capital ratios as of October 31, 1953, and as adjusted to give effect to the proposed stock offering are as follows:

| | <u>October 31, 1953</u> | <u>Pro Forma</u> |
|---------------------|-------------------------|------------------|
| Bonds | 46.4% | 43.4% |
| Preferred stock | 9.6 | 8.9 |
| Common stock equity | <u>44.0</u> | <u>47.7</u> |
| Totals | <u>100.0%</u> | <u>100.0%</u> |

The application shows additional financing will have to be undertaken in 1954 if applicant is to proceed with its construction program. If applicant were to issue bonds at this time, instead of common stock, its bond position would be increased to 50%, which would indicate that at any event additional stock financing would be called for in 1954. In our opinion it is desirable for applicant, if possible, to engage in equity financing before undertaking the sale of additional bonds in order to provide a broader base

of equity capital in its structure which should more readily insure the completion of debt financing at a later date under favorable terms. It appears that applicant now has equity funds available to it and in our opinion it should take advantage of its opportunity to obtain such funds and proceed with the issue of its shares of common stock as now planned.

Applicant intends to offer the additional shares of common stock, at par, to its stockholder pursuant to the preemptive rights conferred by its articles of incorporation on its stockholder to purchase and/or to subscribe for any additional common shares which may be issued by applicant. We will grant applicant's request but wish to place it upon notice that we will not regard the price at which it sells its shares of stock or the dividends which it pays as representing the value of such shares or as measuring or determining the cost of equity capital or the rate of return which applicant should be allowed to earn on its investment in its plants and properties.

O R D E R

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 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. Southern California Gas Company may issue and sell, at par, on or before June 30, 1954, not exceeding 600,000 shares of its common stock and use the proceeds for the purposes set forth in this application.

2. Southern California Gas Company 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 San Francisco, California, this 12th day of January, 1954.

R. B. Anderson
President

Justice J. O'Connell

Wm. H. Patten

P. E. McMillan

Gene Rogan
Commissioners