

ORIGINAL

Decision No. 50142

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
PACIFIC GAS AND ELECTRIC COMPANY for :
an order of the Commission: authoriz-)
ing applicant to issue and sell and :
deliver 1,000,000 shares (par value)
\$25 each) of its redeemable first :
preferred stock, and to use the pro-)
ceeds for the purposes herein set :
forth; and finding and declaring the)
issue and sale of said shares of :
stock exempt from the competitive)
bidding requirements of Decision :
No. 38614 (46 CRC 281) issued)
January 15, 1946 in Case No. 4761.)
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Application
No. 35470/

F. T. Searls and M. H. Furbush, for applicant;
J. F. Donovan, for the Commission's staff.

O P I N I O N

In this application Pacific Gas and Electric Company re-
quests that the Commission issue an order exempting from competitive
bidding a proposed issue of 1,000,000 shares of its redeemable first
preferred stock of a new series, of the par value of \$25 each and of
the aggregate par value of \$25,000,000, and authorizing it to sell
such shares through negotiated arrangements at such price as may be
authorized by supplemental order of the Commission. The dividend
rate, redemption price and designation of the proposed issue are to
be determined by applicant's board of directors prior to applicant's
filing of a supplemental application with the Commission setting
forth the price at which it proposes to sell the shares. The pro-
posed issue of preferred stock shall not possess conversion rights.

The application was filed with the Commission on May 27,
1954. A public hearing was held before Examiner Howard in San

Francisco on June 10, 1954, 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 in part on account of capital expenditures made on or prior to March 31, 1954, and to pay in part the cost of additions to, extensions of, and betterments and improvements to applicant's plants, properties and facilities made, or to be made, subsequent to March 31, 1954. Applicant reports that up to March 31, 1954, it had expended for capital purposes the sum of \$351,344,314.74 which had not been provided by the issue of permanent securities, such costs having been met primarily with depreciation money and retained earnings, and that it has need for additional funds, upon replenishing its treasury, to proceed with its construction program. In this connection it reports the unexpended balances on authorizations for capital additions and improvements in process of construction of \$164,177,999.51 at March 31, 1954. A segregation of this amount, by departments, follows:

Electric	\$136,566,673.26
Gas	22,085,390.74
Water	606,845.63
Steam sales	33,740.09
Other physical property and plant held for future use	1,812.75
Common utility	<u>4,883,537.04</u>
Total	<u>\$164,177,999.51</u>

The record shows that portions of the construction work now in process will carry over into 1955 or a subsequent year and that additional work other than that now authorized will be undertaken from time to time. Applicant's testimony is to the effect that it is still carrying forward the largest construction program in its history, that it will expend approximately \$340,000,000 for construction during the period January 1, 1954, to December 31, 1955, that

such a program contemplates monthly expenditures for capital-additions of approximately \$15,000,000, and that the rate of such expenditures is expected to continue at a high level for the next several years.

It is apparent that applicant will be called upon to engage in additional financing in the future. It has not determined the form of such future financing but for its present needs it is of the opinion that an issue of preferred stock, in the form proposed, is advisable. In deciding to issue preferred stock applicant's testimony indicates it gave consideration to the advisability of maintaining the historical position of preferred stock in its capitalization ratios, to the lower cost of preferred stock as compared with other forms of equity, to the fact that a period of several years has elapsed since its last preferred offering, and to the condition of the present market for an offering of the type and size herein proposed. Applicant's capital ratios as of April 30, 1954, and pro forma as adjusted to give effect to the proposed issue of preferred stock, to the issue of shares of capital stock to acquire Pacific Public Service Company and Coast Counties Gas and Electric Company, the sale of the First and Refunding Series X Bonds and the redemption of the First and Refunding Series V Bonds, are reported as follows: (\$M) ✓

	<u>April 30, 1954</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>PerCent</u>	<u>Amount</u>	<u>PerCent</u>
Bonds	\$ 771,301	48.7%	\$ 773,261	47.7%
Preferred stock	295,272	18.7	322,064	19.8
Common equity:				
Common stock	397,629	25.1	405,641	25.0
Net premiums	45,714	2.9	48,606	3.0
Surplus	72,633	4.6	72,633	4.5
Sub-totals	<u>515,976</u>	<u>32.6</u>	<u>526,880</u>	<u>32.5</u>
Totals	<u>\$1,582,549</u>	<u>100.0%</u>	<u>\$1,622,205</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, and that it seeks exemption from the requirements of the Commission's competitive bidding rule in order that it may dispose of such shares to a group of underwriters through a negotiated sale. It is applicant's opinion that better over-all results will be obtainable through a negotiated sale of the proposed issue of 1,000,000 shares of redeemable first preferred stock than if said stock were to be sold pursuant to competitive bidding. It is applicant's position that preferred stock issues of the magnitude here contemplated cannot now be sold under the competitive bidding procedure on terms most favorable to the issuer, that a negotiated sale will afford a greater certainty of success in the disposition of the issue, and that a better distribution of the shares, especially in applicant's service area, will be possible. Applicant offered testimony which shows that of the 37 preferred stock offerings of \$5,000,000 or more made during the period January 1, 1953, to May 26, 1954, 17 were at competitive bidding and 20 by negotiated sale, and that of the six offerings which were in excess of \$15,000,000 all were by negotiated sale. It is also noted that the proposed underwriting agreement which applicant will execute under a negotiated sale provides that the underwriters will endeavor, so far as possible, to give preference to orders by residents of this 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 request for 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 terms under which it proposes to dispose of its shares, we will give further consideration to this application.

O R D E R

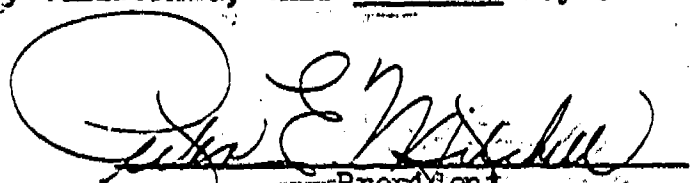
A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue and sale of the shares of stock 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:

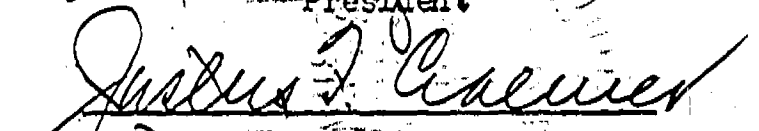
1. The issue and sale by Pacific Gas and Electric Company of 1,000,000 shares of its redeemable first preferred stock, of the aggregate par value of \$25,000,000, hereby is exempted from the provisions of the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946.
2. Pacific Gas and Electric Company, after the effective date hereof and on or before December 31, 1954, may issue and sell, at private sale, not exceeding 1,000,000 shares of its redeemable first preferred stock at such price as the Commission hereafter may fix in a supplemental order in this proceeding, the proceeds to be used for the purposes set forth in this application.
3. The authority herein granted will become effective when the Commission by a supplemental order has fixed the price at which applicant may sell said shares of stock.
4. Within 30 days after the sale of said shares, applicant shall file with the Commission a statement showing the names of those

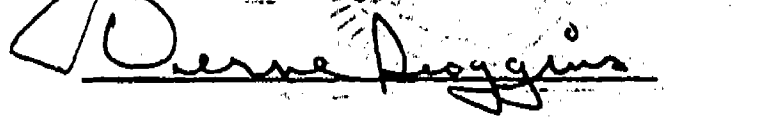
to whom said shares were sold, the number of shares sold to each, and the price at which sold, together with three copies of its prospectus.

Dated at San Francisco, California, this 11th day of June, 1954.



President





Commissioners