A. 35700 CC

ORIGINAL

Decision No. 50508

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 Commission exempting Applicant from the requirement that such shares be sold at competitive bidding.	Application No. 35700

Chickering & Gregory, by Sherman Chickering, for applicant.

O P I N I O N

This is an application for an order of the Commission exempting from competitive bidding a proposed issue by San Diego Gas & Electric Company of 800,000 shares ($8,000,000 par value) of its common stock, and authorizing the company to issue and sell said shares at a price hereafter to be fixed.

The application was filed with the Commission on August 12, 1954. Thereafter, a public hearing was held before Examiner Coleman in San Francisco on August 31, 1954, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

For a number of years applicant has been engaged in a substantial program of expansion of its facilities. Its reported net investment in utility plant has increased from $96,834,956 at the close of 1952 to $111,426,239 at the close of 1953 and to $126,090,796 at the close of June, 1954. It appears that it has financed its expenditures in part through the issue of first mortgage bonds and shares of preferred and common stock, its capital

structure as of June 30, 1954, including retained earnings, being indicated in the following tabulation:

	Amount		Per Cent
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	12,000,000		
2-7/8's, due 1984	17,000,000		
Total first mortgage bonds		$ 55,000,000	45%
Preferred stock -			
Cumulative 5%	7,500,000		
Cumulative 4-1/2%	6,000,000		
Cumulative 4.4%	6,500,000		
Total preferred stock		20,000,000	16
Common stock equity -			
Common stock	32,000,000		
Premiums on capital stock	6,861,369		
Surplus	9,782,678		
Total common stock equity		48,644,047	39
Totals		$123,644,047	100%

The outstanding common stock consists of 3,200,000 shares of the par value of $10 each. For a number of years applicant has paid annual dividends of 80 cents 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 outstanding shares of common stock, according to applicant's latest annual report, were held by 21,312 shareholders at the close of 1953, of whom 75% resided in California. Applicant desires to accord its existing shareholders the opportunity of acquiring additional shares of common stock, but because of the absence of preemptive rights it is required to obtain from the Commission an exemption from competitive bidding in order to submit the shares covered by this application first to such shareholders for purchase. If such exemption is granted, it intends to offer the 800,000 shares, at such price as hereafter may be determined but not less than their par value, to the holders of record at the close of business on September 14, 1954, at the

rate of one new share for each four shares now held, and to offer to issue and sell not to exceed 100 shares of such of said 800,000 shares as shall not have been subscribed and paid for pursuant to such shareholders' offering to each regular employee and to each former employee who is receiving benefits under the established retirement or pension program of the company, for cash, at the same subscription price at which the shares shall be offered shareholders.

In order 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 shareholders and employees. Tentative arrangements with a proposed group of underwriters provide that the underwriters will purchase such unsubscribed shares at the same price at which they are offered to shareholders and will pay to applicant 100% of the amount, if any, by which the amount they receive in disposing of such shares, less their selling expense, exceeds such purchase price plus $20,000. As compensation to the underwriters for their commitments and obligations, applicant will pay to them the sum of 15 cents per share for each of the 800,000 shares plus an amount equal to 30 cents per share for each share purchased by the underwriters upon the exercise of subscription 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 from its shareholders for rights offerings, as here proposed, and requests from employees for the opportunity to acquire stock, that the present market is favorable for the sale of shares of common stock, and that applicant desires for as many as possible of the additional shares to be held in its service area and in

California. It asserts that because of the offering first to shareholders and employees the number of shares to be sold eventually to underwriters is too indefinite to permit submitting the issue to competitive bidding.

The proposed offering is similar to one undertaken by the company in 1953. In that year 800,000 shares were offered to the shareholders at the rate of three shares for each share then held, at a price of $13.30 a share, with similar arrangements for the sale of some shares to employees and for the underwriting of the entire offering. Information presented to the Commission shows that of the total offering, 341,625 shares were subscribed by shareholders, 373,890 by brokers through the exercise of purchased rights and 13,308 by employees, with the remaining 71,177 shares being purchased by underwriters.

Upon disposing of the additional shares of stock at this time, applicant proposes to use the proceeds for the retirement and discharge of all promissory notes which may be outstanding under its loan agreement and for the reimbursement of its treasury for moneys expended for the acquisition of property or for the construction, completion, extension or improvement of its facilities which were not secured by or obtained from the issue of securities. Presently it has outstanding $3,000,000 of notes, but it expects that this amount will have risen to $5,000,000 by the time the proceeds from the sale of stock become available. It reports unreimbursed expenditures for capital purposes as of June 30, 1954, in the amount of $13,899,482 and its unexpended expenditures under its construction budget in the total amount of $13,782,900.

Upon the record as 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 of stock.

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 800,000 shares of common stock hereby is exempted from the Commission's competitive bidding rule, provided that applicant receive for said shares a price satisfactory to the Commission.

2. San Diego Gas & Electric Company may issue, sell and deliver said 800,000 shares, on or before December 31, 1954, 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 14, 1954, 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 in this proceeding.

3. San Diego Gas & Electric Company may issue, sell and deliver to each regular employee, including officers, and to each

former employee who is receiving benefits under the established retirement or pension program of applicant on September 14, 1954, not to exceed 100 shares 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 shareholders, at the same subscription price at which said 800,000 shares shall be offered to such shareholders.

4. San Diego Gas & Electric Company may issue, sell and deliver, 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 above-mentioned offerings to applicant's stockholders and to employees and former employees, at a price hereafter to be fixed by the Commission.

5. San Diego Gas & Electric Company shall use the proceeds to be obtained from the issue and sale of said common stock for the retirement and discharge of all promissory notes which may be issued and outstanding under applicant's loan agreement and for the reimbursement of its treasury for moneys actually expended for construction purposes.

6. On or before January 31, 1955, San Diego Gas & Electric Company shall file with the Commission a report showing the number of common shareholders of record on September 14, 1954, the number of shares subscribed by shareholders, by employees, by others upon purchase of rights to subscribe, and by underwriters, and showing 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 a 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 3rd day of September, 1954

Peter E. Mitchell
President

Justus F. Craemer

Dene Scoggins

Commissioners

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