

Decision No. 51823

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 100,000 shares of its Common)
 Stock at the par value of \$100 a)
 share, aggregating \$10,000,000,)
 under the provisions of Section 818)
 of the Public Utilities Code of the)
 State of California.)
 -----)

Application
No. 37156

O P I N I O N

This is an application for an order authorizing Southern Counties Gas Company of California to issue and sell 100,000 shares of its common stock, of the par value of \$100 each and of the aggregate par value of \$10,000,000.

Applicant is a California corporation engaged in the business of producing, transporting, distributing and selling natural gas as a public utility in the counties of Los Angeles, San Bernardino, Riverside, Ventura, Orange, Santa Barbara and San Luis Obispo. It was organized in 1911 and presently has an authorized capital stock of \$85,000,000, consisting of shares of the par value of \$100 each divided into 100,000 shares of preferred stock and 750,000 shares of common stock. At this time it has outstanding 400,000 shares of common stock, of the aggregate par value of \$40,000,000, which are held by Pacific Lighting Corporation.

A statement of applicant's assets and liabilities as of June 30, 1955, has been filed in this proceeding in Exhibit B. A summary of the same is as follows:

Assets

Gas plant, less reserves		\$107,434,583
Other property, less reserves		145,229
Current assets -		
Cash and deposits	\$ 1,708,319	
Notes and accounts receivable	3,826,204	
Materials and supplies	1,761,812	
Prepayments	<u>473,902</u>	
Total current assets		7,770,237
Deferred debits		<u>221,906</u>
	Total	<u>\$115,571,955</u>

Liabilities and Capital

Bonds		\$ 49,251,000
Current liabilities -		
Accounts payable	\$ 2,745,966	
Payable to associated companies	1,808,808	
Accrued interest and taxes	5,470,766	
Other liabilities	<u>461,828</u>	
Total current liabilities		10,487,368
Customers' advances for construction		994,321
Other deferred credits		384,253
Miscellaneous reserves		2,151,351
Contributions in aid of construction		1,568,017
Common stock equity -		
Common stock	40,000,000	
Surplus	<u>10,735,645</u>	
Total common stock equity		<u>50,735,645</u>
	Total	<u>\$115,571,955</u>

According to the exhibit, applicant, during the past five years, has paid dividends on its outstanding shares of common stock at the rate of 8.4% in 1951, 9.6% in 1952 and 1953, and 9.2% in 1954. During the first six months of 1955 it paid dividends of \$1,920,000, being 4.8% of the total par value of its outstanding shares of stock.

In now engaging in additional stock financing, applicant proposes to offer the 100,000 shares covered by this application at par to the holder of the presently outstanding shares of stock pursuant to the preemptive right to subscribe for additional shares which is granted such holder by applicant's articles of incorporation. It intends to apply the proceeds from the sale to liquidate

indebtedness to Pacific Lighting Corporation, representing borrowings made to pay for the acquisition of property and for the construction, completion, extension and improvement of its facilities, and to use the proceeds in addition to those required to liquidate such indebtedness to finance in part its capital requirements during the remainder of 1955.

According to the application the indebtedness to the holding company was approximately \$1,880,000 as of July 31 of this year. Applicant's capital requirements for the entire year 1955 are reported at \$16,552,700 and its estimated sources of funds include the \$10,000,000 stock issue now under contemplation, borrowings from Pacific Lighting Corporation, and funds generated internally, including earned surplus and depreciation accruals.

From time to time applicant has come before the Commission for authorization to increase rates and to issue securities and the Commission is familiar with its operations and its plant requirements. On December 28, 1954, by Decision No. 50902, it reviewed applicant's results of operations and approved increases in rates designed to produce a return of 6% applied to a depreciated historical cost rate base of \$106,846,000, including in the rate base an allowance for weighted average net additions to plant for the year 1955. On July 26, 1955, by Decision No. 51742, the Commission granted

The capital requirements are segregated as follows:

Gas storage facilities	\$ 500
Gas transmission facilities	3,105,900
Gas distribution facilities	11,528,200
Building and improvements to grounds	649,400
Motor transport equipment	493,700
Furniture, tools, shop, laboratory and communications equipment	93,600
Land and land rights	182,400
Total budgeted money expenditures for plant	<u>16,053,700</u>
Sinking fund payment	<u>499,000</u>
Total	<u>\$16,552,700</u>

applicant a certificate of public convenience and necessity for the construction of 31.5 miles of 30-inch pipeline between Cactus City and Desert Center in Riverside County to complete the looping of its so-called Texas pipeline. The estimated cost of the pipeline is stated in the decision at \$2,535,555, the amount being included in the total estimated plant requirements for 1955 to which reference has been made.

From a review of this proceeding it is clear that applicant has need for additional funds from external sources to liquidate its short-term debt and to enable it to proceed with its construction activities. The issue of shares of stock at this time, in our opinion, is warranted and we will enter our order approving the transaction. In making this order, however, we place applicant on 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 plant 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 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. Southern Counties Gas Company of California may issue and sell, at not less than par on or before December 31, 1955, not to exceed 100,000 shares of its common stock of the par value of \$100 each, and use the proceeds for the purposes set forth in this application.

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 San Francisco, California, this 16th day of August, 1955.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners