

ORIGINAL

Decision No. 52076

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. :
 -----)

Application
No. 37315

F. T. Searls and W. E. Johns, for applicant;
Dion R. Holm, City Attorney, and Paul L. Beck,
 Chief Valuation and Rate Engineer in the City
 Attorney's Office, by Paul L. Beck, for the City
 and County of San Francisco, interested party.

O P I N I O N

Pacific Gas and Electric Company, on September 22, 1955,
 filed this application for authorization to issue and sell
 1,000,000 shares (\$25,000,000 par value) of its redeemable first
 preferred stock by means of a negotiated underwriting.

A public hearing on the application was held before
 Commissioner Untereiner and Examiner Coleman in San Francisco on
 October 10, 1955, 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 sub-
 stantial program of plant expansion and, according to Exhibit 2, has
 expended approximately \$926,000,000 for construction during the
 period from January 1, 1950, to July 31, 1955. It reports that not

all of its expenditures have been paid or provided by the issue of permanent securities and that a substantial amount has been financed temporarily with depreciation moneys and retained earnings. In Exhibit B, it shows its unfinanced capital expenditures at June 30, 1955, in the amount of \$418,025,832.

At this time applicant seeks to replenish its treasury with proceeds from the sale of its preferred shares. It asserts that it has need for moneys to pay outstanding short-term loans now in the amount of \$23,000,000 and to meet part of its new construction costs. It shows its unexpended balances of approved construction jobs, now in progress, at \$107,183,886.88, segregated to departments as follows:

Electric	\$ 93,371,606.33
Gas	9,592,140.93
Water	830,564.52
Steam Sales	3,264.68
Other Physical Property and Plant Held for Future Use	4,082.56
Common Utility	3,382,227.86
Total	<u>\$107,183,886.88</u>

It appears that not all of these amounts will be expended during the coming year and that in addition there will be other jobs approved. Applicant estimates that for the 12 months ending June 30, 1956, its capital additions will be equal to or will exceed the sum of \$130,000,000, about one-half of which must be financed from external sources, and that through the end of 1957 its expenditures will aggregate approximately \$350,000,000.

Thus, being faced with a continuing program of plant expansion, applicant is required to develop an uninterrupted supply of capital funds. It is of the opinion that the market will be receptive to its offering of the preferred shares at this time, that the condi-

tion of the common stock and bond market is not propitious to the sale of those types of securities and that its capital ratios permit the sale of additional preferred at this time.^{1/}

Subject to receiving authorization from the Commission, applicant proposes to dispose of its preferred shares by means of a negotiated underwriting. It asserts that in its opinion better over-all results will be obtained through negotiation than through a sale under competitive bidding. Its treasurer testified that the size of the preferred offering does not lend itself to competitive bidding, that it will require approximately 200 underwriters to market the offering successfully, and that he questions whether a second group could be formed in the event competitive bidding were to be required. He stated further that applicant's preferred stock, because of frequent offerings and the large amount outstanding, has no scarcity value and that a large offering such as is here proposed requires advance market preparation which cannot be expected under competitive bidding.

Applicant has filed, in its Exhibit 2, a summary of public utility preferred stock offerings throughout the country during 1954 and 1955. The statement indicates that it is the general practice of utilities to dispose of larger offerings by means of negotiation, that there have been only two offerings as high as \$25,000,000 during the last two years and that as to the smaller issues, in general, there was no substantial difference between the range of prices under negotiation and the range under competitive bidding.

^{1/} Applicant's capital ratios at August 31, 1955 and as adjusted to give effect to the proposed financing are as follows:

	<u>August 31, 1955</u>	<u>Pro Forma</u>
Bonds and bank loans	48.9%	47.3%
Preferred stock	18.7	20.2
Equity capital	<u>32.4</u>	<u>32.5</u>
	100%	100%

Upon reviewing the application we are of the opinion that exemption of the proposed issue will not be adverse to the public interest and that a preliminary order is warranted granting applicant's request. At a later date, applicant will file a supplemental application setting forth the dividend rate, redemption prices and other specific terms and conditions of the new shares of preferred stock, if any, and the prices at which it intends to dispose of them. At that time the Commission 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 through 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 of 1,000,000 shares of redeemable first preferred stock by Pacific Gas and Electric Company hereby is exempted from the provisions of the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, provided applicant obtains for said shares a price satisfactory to the Commission.

2. Pacific Gas and Electric Company, after the effective date hereof and on or before December 31, 1955, may issue and sell

said shares of redeemable first preferred stock at a price to be fixed by the Commission in a supplemental order.

3. Pacific Gas and Electric Company shall use the proceeds to be received through the issue and sale of said 1,000,000 shares of redeemable first preferred stock to reimburse its treasury, in part, on account of capital expenditures made on or prior to June 30, 1955, or to pay in part the cost of additions to, extensions of, and betterments or improvements to its plants, properties and facilities made, or to be made, subsequent to June 30, 1955, and to repay bank loans.

4. The authority herein granted to issue and sell said 1,000,000 shares of redeemable first preferred stock will become effective when the Commission by a supplemental order shall have fixed the price at which said shares may be sold. In other respects, this order is effective upon and after the date hereof.

5. Within 90 days after the issue and sale of said 1,000,000 shares of redeemable first preferred stock, Pacific Gas and Electric Company shall file with the Commission a report showing the names of the underwriters to whom said shares of stock were sold, the number of shares sold to each underwriter, and the consideration received, together with three copies of its prospectus.

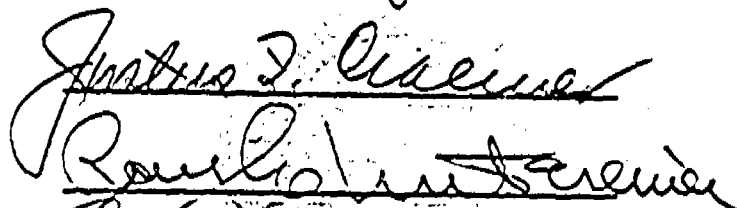
6. On or before January 31, 1956, Pacific Gas and Electric Company shall file with the Commission a report showing in detail the expenses incurred by it in connection with the issue and sale of said 1,000,000 shares and the account, or

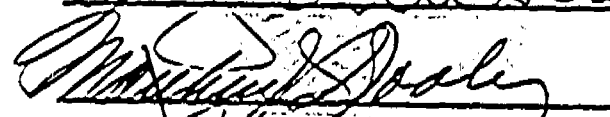
accounts, to which said expenses were charged.

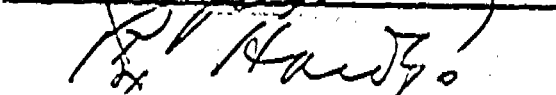
Dated at San Francisco, California, this 18th day
of October, 1955.



President







Commissioners