

Decision No. 52542**ORIGINAL**

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 authorizing it (1) to issue and sell 504,000 shares of its Common Stock at the par value of \$25 a share, aggregating \$12,600,000, and (2) to issue 96,000 shares of its Common Stock as a stock dividend on its presently outstanding Common Stock.

Application
No. 37629O P I N I O N

This is an application for an order authorizing Southern California Gas Company to issue and sell 504,000 shares of its common stock, of the par value of \$25 each and of the aggregate par value of \$12,600,000, for the purpose of liquidating indebtedness, and to issue 96,000 shares of common stock of the aggregate par value of \$2,400,000 to capitalize paid-in surplus.

Applicant is a California corporation organized on or about October 5, 1910. Its authorized shares of stock and the total par value thereof, together with the total par value outstanding on November 30, 1955, are shown in the following tabulation:

	<u>Authorized</u>		<u>Amount</u>
	<u>Shares</u>	<u>Amount</u>	<u>Outstanding</u>
Preferred (\$25 par)			
6% cumulative	160,000	\$ 4,000,000	\$ 2,711,550
Ser. A, 6% cumulative	<u>840,000</u>	<u>21,000,000</u>	<u>19,575,800</u>
Total preferred	1,000,000	25,000,000	22,287,350
Common (\$25 par)	<u>6,000,000</u>	<u>150,000,000</u>	<u>110,000,000</u>
Totals	<u>7,000,000</u>	<u>\$175,000,000</u>	<u>\$132,287,350</u>

The outstanding shares of common stock are held by Pacific Lighting Corporation. Applicant has paid monthly dividends on its common shares, which dividends during the last five calendar years have totaled \$2.50 in 1950, \$2.40 in 1951, \$2.45 in 1952, \$3.00 in 1953, and \$2.47½ in 1954.

It has been applicant's practice to finance itself temporarily with monies advanced by Pacific Lighting Corporation and with retained earnings and other amounts in its treasury, and from time to time to refinance itself with permanent securities. It has reported its capital structure as of November 30, 1955, exclusive of holding company loans, as follows:

Bonds	\$107,200,000	39.5%
Preferred stock	22,287,350	8.2
Equity capital -		
Common stock	\$110,000,000	
Common stock premium	2,400,000	
Earned surplus	<u>29,439,019</u>	
Total equity capital	<u>141,839,019</u>	<u>52.3</u>
Total	<u>\$271,326,369</u>	<u>100.0%</u>

At this time applicant reports that it has need for additional funds from external sources and that it proposes to offer the 504,000 shares of common stock covered by this application for sale at par to the holder of the presently outstanding common shares, pursuant to the pre-emptive right to subscribe for additional shares of common stock which is granted by applicant's articles of incorporation. It intends to use the proceeds to liquidate a part of its indebtedness to Pacific Lighting Corporation which represents borrowings incurred for the payment of properties or for the construction, completion, extension, or improvement of its facilities. Applicant sets forth its cash requirements during 1956 and its sources of funds as follows:

Cash requirements

Plant budget - 1956	\$48,500,000
Due Pacific Lighting Corporation at January 1, 1956 (estimated)	16,700,000
Sinking fund requirements	<u>2,680,000</u>
Total required	<u>\$67,880,000</u>

Sources of cash

Depreciation	\$ 8,100,000
Deposits and construction advances, net	500,000
Proposed current sale of 504,000 shares of Common Stock at \$25 a share	12,600,000
Remainder, to be provided partly by surplus funds and principally from prospective sale of senior securities during the summer of 1956	<u>46,680,000</u>
Total	<u>\$67,880,000</u>

The proposed expenditures which are included in the 1956 plant budget are shown in some detail in Exhibit B filed in this proceeding.

In addition to the sale of shares for cash, applicant proposes to issue 96,000 shares of common stock for the purpose of adjusting its equity capital by capitalizing the present paid-in surplus of \$2,400,000 now appearing on its books as premium on common stock and which represents cash payments made into its treasury. The transaction will not result in any increase in the total equity capital.

From time to time the Commission has considered applicant's properties and operations and is familiar with the construction program with which it has been faced and now is being faced. Its

most recent review is reflected in Decision No. 51359, dated April 19, 1955, wherein it approved certain increases in rates. The decision of the Commission sets forth a rate base, as developed by the staff, of \$295,997,000 for the pro forma year 1955, and the rates approved were designed to produce a return on such base of approximately 6.3%.

Upon a review of this matter we are of the opinion that we are warranted in making an order granting applicant's requests. We place applicant on notice, however, that we will not regard the price at which it sells its stock or the dividends 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 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 California Gas Company may issue and sell, at par, on or before May 31, 1956, not to exceed 504,000 shares of its common stock, and use the proceeds for the purposes set forth in this application.

2. Southern California Gas Company may issue not exceeding 96,000 shares of its common stock on or before May 31, 1956, for the purpose of reimbursing its treasury and thereafter may distribute such shares to the holder of its outstanding common stock as a stock dividend. In recording the transaction, applicant shall transfer \$2,400,000 from premium on capital stock to its capital stock account.

3. 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.

4. The authority herein granted will become effective 20 days after the date hereof.

Dated at Los Angeles, California, this 31st day of January, 1956.

[Signature]
President

Justus D. Casper

[Signature]

[Signature]

[Signature]
Commissioners