

ORIGINAL

Decision No. 53488

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. 38227

O P I N I O N

Southern Counties Gas Company of California has filed this application for authorization to issue 100,000 shares of its common stock of the aggregate par value of \$10,000,000 and to sell said shares at par to Pacific Lighting Corporation, the holder of all its presently outstanding stock, pursuant to pre-emptive rights granted by applicant's articles of incorporation.

It appears that applicant for some years has been engaged in a substantial and continuing program of expansion and that it has been its practice to finance itself temporarily with monies furnished by Pacific Lighting Corporation and, from time to time, to refinance itself through the issue of bonds and common stock. In the present proceeding, applicant reports its 1956 plant budget and its estimated cash requirements and sources of funds as follows:

SUMMARY OF 1956 PLANT BUDGET

Gas transmission facilities	\$ 6,906,000
Gas distribution facilities	14,133,000
Building and improvements to grounds	720,000
Motor transport equipment	785,000
Furniture, tools, shop, and laboratory equipment	253,000
Land and land rights	<u>50,000</u>
Total budgeted money expenditures for plant	<u>\$22,847,000</u>

ESTIMATED CASH REQUIREMENTS
AND SOURCES OF FUNDS - YEAR 1956

<u>CASH REQUIREMENTS</u>	
Plant budget	\$22,847,000
Sinking fund payment	<u>1,417,000</u>
Total funds required	<u>\$24,264,000</u>
<u>SOURCE OF FUNDS</u>	
Depreciation cash - annuity	\$ 1,983,000
- interest	881,000
Proceeds from sale of common stock	10,000,000
Short term financing arrangements with Pacific Lighting Corporation:	
Balance owed company 12-31-55	\$ 51,000
Balance of borrowings 12-31-56	<u>11,349,000</u>
Total funds supplied	<u>\$24,264,000</u>

The tabulation shows that the proposed issue of common stock will not suffice to meet all of its 1956 capital requirements and that applicant will be compelled to engage in additional financing later in the year. Applicant desires to sell shares of common stock at this time, rather than bonds, in order to improve its capital structure and to place itself in a more favorable position for future debt financing. It reports its capital ratios as of May 31, 1956 and as adjusted to give effect to the proposed financing, as follows:

	<u>May 31, 1956</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Per Cent</u>	<u>Amount</u>	<u>Per Cent</u>
Bonds	\$ 49,251,000	44%	\$ 49,251,000	41%
Stock	50,000,000	45	60,000,000	49
Surplus	<u>12,276,255</u>	<u>11</u>	<u>12,276,255</u>	<u>10</u>
Total	<u>\$111,527,255</u>	<u>100%</u>	<u>\$121,527,255</u>	<u>100%</u>

At May 31, 1956, the applicant was indebted to Pacific Lighting Corporation in the amount of \$1,350,089. It estimates that this debt will rise to approximately \$9,900,000 by the end of August, when it hopes to discharge the amount through the sale of shares covered by this application. The proceeds from such sale of shares not needed to liquidate indebtedness will be applied by applicant to meet its other cash requirements.

Upon reviewing this proceeding, it appears that applicant will have need for additional funds to liquidate its temporary borrowings and that the issue of shares of stock at this time should be authorized. In making its order in this proceeding, however, the Commission again desires to place applicant on notice that it will not regard the dividends paid on common stock as determining or fixing the rate of return which applicant should be allowed to earn on its investment in its utility plant, nor as representing the cost of money obtained through the issuance of common stock. The authorization granted is for the issue of securities only and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

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 of the 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 100,000 shares of its common stock to Pacific Lighting Corporation, at par, on or before December 31, 1956, said shares to be sold pursuant to the pre-emptive rights contained in the applicant's articles of incorporation.

2. Applicant shall use the proceeds to be received from the issue and sale of said stock to pay indebtedness to Pacific Lighting Corporation and to meet, in part, its 1956 capital requirements.

3. Southern Counties Gas Company of California shall file with the Commission a report, or 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 on the date hereof.

Dated at San Francisco, California, this 31st day of July, 1956.

[Signature] President
[Signature]
[Signature]
[Signature]
Commissioners