

ORIGINAL

Decision No. 56803

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 authorizing applicant, among
other things, to issue, sell, and
deliver shares of its common stock
in the manner, to the amount, and
for the purposes set forth herein;
and relieving applicant of the
necessity of complying with the
requirements of Section A, 1 of
said Commission's General Order
No. 24-A.
(Financial - Common Stock)

Application No. 40106

F. T. Searls, John C. Morrissey and
Philip A. Crane, Jr., for applicant,
R. W. Du Val, of counsel.

O P I N I O N

On May 23, 1958, Pacific Gas and Electric Company filed the above-entitled application for authorization to issue, sell, and deliver 853,781 shares of its common stock of the par value of \$25 each and of the aggregate par value of \$21,344,525.

A public hearing was held before Examiner Coleman in San Francisco on June 9, 1958, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Sale of Stock

Under the provisions of applicant's articles of incorporation the holders of the presently outstanding shares of common stock have the preemptive right to subscribe for and to purchase any new issues of common shares.

Accordingly, applicant proposes to offer the 853,781 shares of common stock to its present common stock shareholders of record at the close of business on June 17, 1958, in the ratio of one share for each 20 shares then held, at a price hereafter to be fixed, to issue to said shareholders, on or before June 23, 1958, transferable warrants evidencing their right to subscribe to the shares to be offered, which rights will expire at the close of business on July 8, 1958, and thereafter to issue and sell its shares upon subscription and payment of the purchase price in accordance with the terms of the warrants.

In order to insure the sale of all the shares of stock, applicant intends, if so authorized by the Commission, to enter into an underwriting agreement for the sale to certain underwriters of the shares not subscribed and paid for pursuant to the offer to the shareholders. Under the terms of the proposed underwriting agreement, it is expected that the underwriters will acquire rights during the stockholders' subscription period and, upon exercising such rights, will distribute such shares through their normal distributing channels. It is asserted that the activities of the underwriters during the subscription period tend to exert a stabilizing effect on the market price of the stock.

Competitive Bidding

The issue of the shares of stock to applicant's shareholders pursuant to their preemptive rights is exempt from the requirements of the Commission's competitive bidding rule.

Applicant seeks an order at this time exempting from such requirements the issue and sale of the unsubscribed shares and, in this connection, it asserts that although it has no agreement with

any underwriters at this time as to the price of its shares, it is of the opinion better results have been obtained in the past and can be obtained at this time by means of a negotiated underwriting. According to the record, prior issues have been disposed of successfully under conditions similar to those now proposed with respect to the present issue. Exhibit No. 8 filed at the hearing contains the following data with respect to the last three common stock offerings of applicant:

	<u>1952</u>	<u>1953</u>	<u>1956</u>
Shares offered	2,271,300	1,946,829	812,791
Subscriptions -			
By shareholders	65.42%	69.01%	67.59%
By underwriters upon exercise of rights	28.23	25.76	27.55
By others	4.07	3.36	2.28
Unsubscribed - purchased by underwriters	<u>2.28</u>	<u>1.87</u>	<u>2.58</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Sale Price

The resolution of applicant's board of directors provides for the sale of 853,781 shares at such price as the president and general manager might determine, but at not less than their par value of \$25 a share.

At this time, the offering price to the shareholders and the sale price and the terms of the underwriters' agreement have not been finally determined. They will be reported to the Commission in a supplemental application to be filed in this proceeding.

Purpose of Financing

The purpose of the proposed financing is to provide applicant with funds to reimburse its treasury, to pay bank loans and to provide the cost of additions to, extensions of, and betterments or improvements to its plants, properties, or facilities made, or to be made, subsequent to January 31, 1958. Applicant reports that up to January 31, 1958, its expenditures for capital purposes for which it had not been reimbursed through the issue of permanent securities amounted to \$580,736,571.55, the amount having been provided primarily with depreciation money and retained earnings, that it has borrowed or expects to borrow \$59,000,000 on short-term bank loans by the time its stock proceeds become available, and that it has need for additional funds to improve its cash position, through the payment of its bank borrowings, and to proceed with its construction activities. In this connection, it reports the unexpended balance of authorizations for capital additions and improvements in process of construction at January 31, 1958, in the total amount of \$154,848,678.83, segregated as follows:

Electric	\$136,177,169.03
Gas	11,040,873.03
Water	779,233.92
Steam	153,280.22
Other physical property and plant held for future use	37,322.00
Common utility	<u>6,660,800.63</u>
Total	<u>\$154,848,678.83</u>

The testimony shows that not all the jobs now under construction will be completed this year and that additional work will be authorized from time to time. Applicant expects that during the year 1958, the cost of capital additions and improvements will approximate the sum of \$180,000,000.

Capital Structure

It is estimated by applicant that about one half of its capital expenditures will be financed with funds now in its treasury and from funds expected to be available from internal sources. In view of the magnitude of applicant's construction program it is clear that it will be called upon, from time to time, to engage in additional financing in the future. Applicant is of the opinion that because of prevailing market conditions it should undertake the sale of shares of common stock at this time, rather than some other form of security, and that by doing so it will maintain and improve its capital structure. Its ratios as of April 30, 1958, and as adjusted to give effect to the proposed issue of common stock are as follows:

	<u>April 30, 1958</u>	<u>Pro Forma</u>
Bonds and notes	50.2%	48.2%
Preferred stock	17.1	17.1
Common stock equity	<u>32.7</u>	<u>34.7</u>
Total	<u>100.0%</u>	<u>100.0%</u>

At the close of business on April 30, 1958, 17,075,602 shares of common stock were outstanding. The book value is calculated to be \$39.10 a share on the basis of the April 30, 1958 recorded figures, and the market price recently has been reported at \$58.25. For a number of years applicant paid quarterly dividends on its outstanding common shares of 50¢, but in July, 1953, it increased the quarterly dividend to 55¢, and in March, 1956, to 60¢.

Conclusions

From a review of the record it is clear that applicant will have need for additional funds from the issue of capital securities in order to enable it to meet its requirements and to proceed with its construction activities, and that the issue of shares of common stock, at this time, is desirable. In view of applicant's past success in disposing of its common stock offerings, there appears to be no reason why it should not be authorized to proceed with similar arrangements at this time.

Upon a full consideration of this matter we will enter a preliminary order authorizing the issue of the shares of stock and approving the request for exemption from competitive bidding. At a later date, upon the filing of the supplemental application setting forth the proposed sale price and the terms of the underwriting agreement, we will consider making a final order.

The action taken herein is for the issue of stock 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

A public hearing having been held in the above-entitled application and the Commission having considered the evidence submitted and being of the opinion that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required 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. Pacific Gas and Electric Company, after the effective date hereof and on or before December 31, 1958, may issue, sell and deliver, 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 June 17, 1958, not exceeding 853,781 shares of its common stock, such shares to be offered to the holders of applicant's shares of common stock on the basis set forth in this application and at such price as the Commission hereafter may fix in a supplemental order in this proceeding.

2. Pacific Gas and Electric Company, after the effective date hereof and on or before December 31, 1958, may issue and sell to underwriters such of said 853,781 shares of common stock as have not been subscribed and paid for pursuant to the offering to applicant's shareholders, such unsubscribed shares to be sold at such price as the Commission hereafter may fix in a supplemental order in this proceeding. The issue of said shares of stock is hereby exempted from the requirements 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.

3. Pacific Gas and Electric Company shall use the net proceeds to be received from the issue and sale of said 853,781 shares of common stock to reimburse its treasury in part on account of capital expenditures made on or prior to January 31, 1958, to repay bank loans which may be outstanding, and/or to pay in part the cost of additions, extensions, betterments or improvements to its plants, properties and facilities made, or to be made, subsequent to January 31, 1958.

4. The authority herein granted to issue and sell said 853,781 shares of common stock will become effective when the Commission by a supplemental order shall have fixed the price at which said shares of stock may be sold. All other authority granted by this order is effective upon the date hereof.

5. On or before December 31, 1958, Pacific Gas and Electric Company shall file with the Commission a statement showing the number of common shareholders of record on June 17, 1958; the number of subscriptions by shareholders, by others who purchased rights to subscribe, and by underwriters upon exercise of rights; the number of shares subscribed by such shareholders, by others, and by underwriters during the subscription period and the gross proceeds received; the number of unsubscribed shares purchased by underwriters; and the expenses incurred by applicant in connection with the issue and sale of the 853,781 shares of stock. Such statement shall be filed in lieu of a report, or reports, under General Order No. 24-A.

6. As soon as available, applicant shall file with the Commission five copies of its final prospectus in connection with the offering of said shares of stock.

Dated at San Francisco, California, this 9th day of June, 1958.

W. E. [Signature]
President

[Signature]

Theodore Jenner

Commissioners

Ray E. Untereiner
Commissioner C. Matthew J. Daaloy being necessarily absent, did not participate in the disposition of this proceeding.