

ORIGINAL

Decision No. 57575

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 to issue and sell 1,000,000 shares of its Common Stock at the par value of \$25 a share, aggregating \$25,000,000.

Application No. 40512

O P I N I O N

Southern California Gas Company has filed this application for authorization to issue 1,000,000 shares of its common stock, of the par value of \$25 each and of the aggregate par value of \$25,000,000, and to sell said shares at their par value to Pacific Lighting Corporation, the holder of all applicant's presently outstanding shares of common stock.

The purpose of the proposed financing is to liquidate applicant's indebtedness to Pacific Lighting Corporation and to finance, in part, its expenditures for the acquisition of property or for the construction, completion, extension or improvement of its facilities. Applicant reports its cash requirements during 1959 for capital purposes and its estimated sources of funds, as follows:

Cash requirements -	
Plant budget - 1959	\$56,644,000
Due Pacific Lighting Corporation at January 1, 1959 (before the proposed current common stock issue)	15,700,000
Sinking fund requirements	<u>626,000</u>
Total	<u>\$72,970,000</u>
Sources of cash -	
Depreciation	\$10,658,000
Proposed current sale of 1,000,000 shares of common stock at \$25 a share	25,000,000
Remainder, to be provided partly by surplus funds and principally from prospective sale of senior securi- ties during 1959	<u>37,312,000</u>
Total	<u>\$72,970,000</u>

It has been applicant's practice to finance itself, in part, with temporary advances from Pacific Lighting Corporation and from time to time to refinance such advances with permanent securities. Applicant's capital ratios as of September 30, 1958, and as adjusted to give effect to the proposed stock offering, are as follows:

	<u>September 30, 1958</u>	<u>Pro Forma</u>
Bonds	47.6%	44.4%
Preferred stock	6.3	5.9
Common stock equity	<u>46.1</u>	<u>49.7</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The application shows additional financing will have to be undertaken in 1959 if applicant is to proceed with its construction program. If applicant were to issue bonds at this time, instead of common stock, its bond position would be increased to approximately 51%, which would indicate that

additional common stock financing would be called for in 1959. In our opinion it is desirable for applicant, if possible, first to engage in equity financing before undertaking the sale of additional bonds in order to provide a broader base of equity capital in its structure which should more readily insure the completion of debt financing at a later date under more favorable terms. It appears that applicant now has equity funds available to it and in our opinion it should take advantage of its opportunity to obtain such funds and proceed with the issue of its shares of common stock as now planned, rather than with the sale of bonds under the market conditions presently prevailing.

Applicant intends to offer the additional shares of common stock, at par, to its stockholder pursuant to the preemptive rights conferred by its articles of incorporation on its stockholder to purchase and/or to subscribe for any additional common shares which may be issued by applicant. We will grant applicant's request but wish to place it upon 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 its plants and properties.

The authorization herein granted is for the issue and sale 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

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 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 June 30, 1959, not to exceed 1,000,000 shares of its common stock for the purposes set forth in this application.
2. Southern California Gas Company 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.

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

Dated at San Francisco, California, this 10<sup>th</sup> day of November, 1958.

E. Lynn Fox  
President  
John C. Mitchell  
Paul J. Brennan  
William J. ...  
Richard J. ...  
Commissioners