Decision No. 59194

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN DIEGO GAS & ELECTRIC COMPANY a corporation, for authority to issue and sell 500,000 shares of its Common Stock of the par value of $10 per share, and for an order of this Commission exempting Applicant from the requirement that such shares be sold at competitive bidding.	Application No. 41565

Chickering & Gregory, by Sherman Chickering, for applicant.

OPINION

In this proceeding the Commission is asked to make an order (1) exempting from competitive bidding a proposed issue by San Diego Gas & Electric Company of 500,000 shares of its common stock of the aggregate par value of $5,000,000 and (2) authorizing the company to issue and sell said shares.

The application was filed with the Commission on October 9, 1959. Thereafter, a public hearing was held before Examiner Coleman in San Francisco on October 21, 1959, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Purpose of Issue

The company seeks authorization to use the proceeds from the sale of its shares of common stock (1) to reimburse its treasury for moneys actually expended for the acquisition of properties and for the construction, completion, extension or improvement of facilities, and (2) for the reduction and discharge of its short-term bank loans which may be outstanding at the time the stock money is received.

In Exhibit C, applicant reports its uncapitalized construction as of August 31, 1959, at $32,801,639 and in Exhibit B, it reports its unexpended balance of budgeted construction items as of August 31, 1959, at $17,635,600.

The company reports that, as of the end of August, its outstanding short-term bank loans aggregated $9,500,000 and it estimates that it will increase such borrowings to $15,000,000 prior to the issue and sale of the common stock, with respect to which this application has been filed. It reports that its bank loans have been, and will be, incurred in meeting its construction requirements.

Capital Structure

It has been applicant's practice to finance temporarily with short-term bank loans and from time to time to refinance with permanent securities. Its capital structure, as of August 31, 1959, including its short-term bank loans, appears in the following tabulation:

First mortgage bonds -			
3-3/8's due 1970	$16,000,000		
3's due 1978	10,000,000		
3-1/4's due 1982	12,000,000		
2-7/8's due 1984	17,000,000		
3-1/4's due 1985	18,000,000		
4-7/8's due 1987	12,000,000		
Total first mortgage bonds		$ 85,000,000	41%
Debentures, 4-5/8's due 1984		15,000,000	7
Notes payable to banks		9,500,000	5
Total bonds and notes		109,500,000	53
Preferred stock -			
5% series	7,500,000		
4-1/2% series	6,000,000		
4.40% series	6,500,000		
5.60% series	7,500,000		
Total preferred stock		27,500,000	13
Common stock equity -			
Common stock	40,000,000		
Premium on stock	9,920,196		
Retained earnings	19,789,208		
Total common stock equity		69,709,404	34
Total		$206,709,404	100%

The outstanding common stock consists of 4,000,000 shares of the par value of $10 each. During the past five years applicant has paid dividends at the rate of 8% of the par value in 1954 and 1955; at the rate of 9.2% in 1956; at the rate of 9.6% in 1957; and at the rate of 9.8% in 1958. The book value of the outstanding common shares is calculated at $17.25 a share on the basis of the August 31, 1959 recorded figures, and the market price has ranged during 1959 from 25-1/4 to 29-3/8, with recent sales at about 26.

Sale of Stock

Applicant has not entered into any contract for the sale of its shares of common stock but proposes to offer them at such price as its Board of Directors shall determine but at not less than their par value of $10 each a share, to the holders of record of the presently outstanding shares at the close of business on or about November 4, 1959, at the rate of one new share for each eight outstanding shares, and to offer to issue and sell not to exceed 100 of such shares as shall not have been subscribed and paid for pursuant to such offering to stockholders, to each regular employee, including officers, and to each former employee who is receiving benefits under the retirement or pension program of the company, such offering to be for cash at the subscription price at which the shares shall be offered to shareholders. In order to insure the sale of the entire block of 500,000 shares, applicant proposes to enter into an underwriting agreement with a group of underwriters which will provide for the issue and sale to underwriters of such of said 500,000 shares of common stock as shall not have been subscribed and paid for pursuant to the offer to shareholders and employees. Tentative arrangements provide that the underwriters shall purchase the shares not so subscribed and paid for at the same subscription price and will pay to applicant 60 per cent of the amount, if any, by which the gross price the underwriters receive in disposing of such shares exceeds their purchase price. Further tentative arrangements provide that applicant will pay the underwriters a commission of 8/10ths of one per cent of the aggregate subscription price on the 500,000 shares.

Competitive Bidding

Applicant's shareholders do not have preemptive rights, and accordingly the company is required to obtain an exemption from the Commission's competitive bidding rule, in order to submit its shares to its shareholders for purchase.

In support of the request for exemption a witness called by applicant testified that the management had received requests from its shareholders and employees for additional stock, that the present market is favorable for the sale of shares of common stock, that applicant desires to afford its present shareholders and employees the right to so acquire its common stock, and that it desires to sell as much of the proposed issue as possible in its own service area and in California, which, it is asserted, can be done more readily under a negotiated sale than under competitive bidding. In the past applicant has been successful in undertaking sales of its stock under terms somewhat similar to those now proposed. In the year 1953, for example, 800,000 shares of its common stock were offered to shareholders at a price of $13.30 a share with similar arrangements for the sale of its shares to employees and for the underwriting of the entire offering. Again in 1954, an offering of 800,000 shares at $13.75 a share was made under similar arrangements.

Sale Price

The resolution of the company's Board of Directors provides for the sale of the 500,000 shares of common stock at such price as the Board of Directors might determine but at not less than their par value.

The record shows it is contemplated that the shares will be offered to shareholders and employees at a price 7-1/2% below the price on the New York Stock Exchange on November 2, 1959, rounded to the nearest ten cents.

Conclusions and Findings

From a review of the record developed in this particular proceeding, it is clear that applicant will have need for additional funds to meet its short-term bank borrowings, to improve its capital structure and to enable it to proceed with its construction activities. 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 at this time to proceed with the proposed sale under similar arrangements. Moreover, the number of shares to be taken by underwriters is indefinite due to the prior offering to stockholders and employees.

We are of the opinion, therefore, and so find, that the issue of the 500,000 shares of common stock shall be exempted from competitive bidding, that the money, property or labor to be procured or paid for by the issue and sale of said 500,000 shares of stock 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.
On the basis of these findings, we will enter an order granting the application.

The authorization herein granted 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.

ORDER

A public hearing having been held in the above-entitled matter and the Commission having considered the evidence and being fully apprised in the premises,

IT IS HEREBY ORDERED as follows:

1. The issue by San Diego Gas & Electric Company of not to exceed 500,000 shares of common stock hereby is exempted from the Commission's competitive bidding rule.

2. San Diego Gas & Electric Company may offer, 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 or about November 4, 1959, not to exceed 500,000 shares of its common stock of the aggregate par value of not to exceed $5,000,000, at a price determined as set forth in the preceding opinion.

3. San Diego Gas & Electric Company may offer, issue, sell and deliver not to exceed 100 shares of said 500,000 shares of common stock as shall not have been subscribed and paid for pursuant to the offering to stockholders, to each regular employee, including officers, and to each former employee who is receiving benefits under an established retirement or pension plan of the company, on or about November 4, 1959, for cash at the same subscription price at which said 500,000 shares shall be offered to stockholders.

4. San Diego Gas & Electric Company may issue, sell and deliver, pursuant to an underwriting agreement hereafter to be entered into by applicant, such of said 500,000 shares of common stock as have not been subscribed and paid for pursuant to the aforementioned offerings to applicant's stockholders and employees and former employees, at the same price at which said 500,000 shares shall be offered to stockholders and employees.

5. San Diego Gas & Electric Company shall use the proceeds to be derived from the issue and sale of 500,000 shares of common stock (a) to reimburse it for moneys actually expended for the acquisition of property and for the construction, completion, extension or improvement of facilities, which moneys were actually expended from income or from other moneys in the treasury of applicant not secured by, or obtained from, the issue of securities, and (b) for the reduction and discharge of short-term bank loans outstanding at the time the stock proceeds are received.

6. On or before February 29, 1960, San Diego Gas & Electric Company shall file with the Commission a report showing the number of common shareholders of record on or about November 4, 1959, the number of shares subscribed by shareholders, by employees and by former employees, by others upon purchase of rights to subscribe, and by underwriters, and showing the expenses incurred in connection with the issue and sale of the 500,000 shares and the account, or accounts, to which such expenses were charged, such report to be filed in lieu of a report, or reports, under General Order No. 24-A.

7. The authorization herein granted shall become effective on the date hereof.

Dated at San Francisco, California, this 27th day of October, 1959.

Everett C. McKeage
President

Peter E. Mitchell

Matthew J. Dooley

C. Lyn Fox

Theodore H. Jenner
Commissioners