

**ORIGINAL**

Decision No. 6425S

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. 44720

Chickering & Gregory, by Sherman Chickering,  
for applicant.

O P I N I O N

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 August 21, 1962. Thereafter, a public hearing was held before Examiner Coleman in San Francisco on September 7, 1962, 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 monies 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 uncapitalized construction, as of June 30, 1962, at \$43,616,703, which amount appears to have been provided, temporarily, by current liabilities and retained earnings, and in Exhibit B, it reports the unexpended balance of budgeted construction items for 1962 at \$33,407,100.

The company reports that, as of the end of June of this year, its outstanding short-term notes payable to banks aggregated \$12,500,000 and it estimates that it will increase such borrowings to \$14,500,000 prior to the issue and sale of the common stock with respect to which this application has been filed. It asserts 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 June 30, 1962, 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		
4-5/8's due 1990	<u>30,000,000</u>		
Total first mortgage bonds		\$115,000,000	44%
Debentures, 4-5/8's due 1984		15,000,000	6
Notes payable to banks		12,500,000	5
Total bonds and notes		<u>\$142,500,000</u>	<u>55</u>
Preferred stock			
5% series	7,500,000		
4-1/2% series	6,000,000		
4.40% series	6,500,000		
5.60% series	<u>7,500,000</u>		
Total preferred stock		27,500,000	11
Common stock equity			
Common stock	\$45,000,000		
Premium on stock	15,629,172		
Retained earnings	<u>28,112,225</u>		
Total common stock equity		<u>88,741,397</u>	<u>34</u>
Total		<u>\$258,741,397</u>	<u>100%</u>

The outstanding common stock consists of 4,500,000 shares of the par value of \$10 each. During the past five years applicant has paid dividends at the rate of 9.6% of the par value in 1957; at the rate of 9.8% in 1958; at the rate of 10.8% in 1959; at the rate of 11.8% in 1960; and at the rate of 12.0% in 1961. The book value of the outstanding common shares is calculated at \$19.72 a share on the basis of the June 30, 1962 recorded figures, and the market price has ranged during 1962 from \$27-3/4 to \$40-1/2, with recent sales being in the neighborhood of \$35.

#### Sale of Stock

Applicant has not entered into any contract for the sale of its shares of common stock but proposes to offer them to the holders of record of the presently outstanding shares at

the close of business on or about September 20, 1962, at the rate of one new share for each nine 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.

#### 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.

It is contemplated that the shares will be offered for sale at a price based on the price on the New York Stock Exchange, rounded to the nearest ten cents, less an amount not to exceed 10% of the market price. The record shows that in the past applicant has been successful in selling substantial blocks of stock, upon reasonable terms, under similar arrangements. In 1953, applicant sold 800,000 common shares at a subscription price

of \$13.30 a share when the market price was \$13.60 a share; in 1954 it sold 800,000 common shares at a subscription price of \$13.75 when the market price was \$16.50; and in 1959 it sold 500,000 common shares at a subscription price of \$23.40 when the market price was \$25.15.

#### Competitive Bidding

Under the company's articles of incorporation the present shareholders do not have preemptive rights to subscribe to new offerings of stock and 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 applicant desires to afford its present shareholders and employees the right to so acquire its common stock, and that it desires to distribute as much of the proposed issue as possible in its own service area and in California, which objectives, it is asserted, can be accomplished more readily under a negotiated sale than under competitive bidding.

#### 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, and considering prevailing market conditions, there appears to be no reason why the company should not be authorized at this time to proceed with the proposed sale under negotiated arrangements similar to those it has utilized successfully in the past.

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.

O R D E R

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 that: -

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 September 20, 1962, 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 to be 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 September 20, 1962, 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 28, 1963, San Diego Gas & Electric Company shall file with the Commission three copies of its prospectus and a report showing the number of common shareholders of record on or about September 20, 1962, 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 Los Angeles, California,  
this 19<sup>th</sup> day of SEPTEMBER, 1962.

George H. Trover  
President

[Signature]

Fredrick B. Hallock

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Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.