

ORIGINAL

Decision No. 67342

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. 46650  
Filed May 20, 1964

F. T. Searls, John C. Morrissey and Philip A. Crane, Jr.,  
for applicant; and  
Sidney J. Webb, for the Commission staff.

O P I N I O N

Pacific Gas and Electric Company has filed this application for authorization to issue, sell and deliver not to exceed 2,259,103 shares of its common stock of the par value of \$10 each and of the aggregate par value of \$22,591,030.

A public hearing was held before Examiner Donovan in San Francisco on June 4, 1964, 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 pre-emptive right to subscribe for and to purchase any new issues of common stock. Applicant proposes to offer the 2,259,103 shares of common stock to its present common stock shareholders of record at the close of business on June 16, 1964, in the ratio of one share for each 25 shares then held of record, at a price hereafter to be fixed; to issue to said shareholders, on or before June 22, 1964, transferable warrants evidencing their rights to subscribe to the shares to be offered, which rights will expire at the close of business on July 7, 1964; 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 pre-emptive 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. 7 filed at the hearing contains the following data with respect to the company's last three common stock offerings, which occurred prior to the three-for-one stock split and prior to the reduction in par value from \$25 to \$10 per share:

	<u>1956</u>	<u>1958</u>	<u>1961</u>
Shares offered	812,791	853,781	896,470
Subscriptions -			
By shareholders	67.59%	64.45%	71.20%
By underwriters upon exercise of rights	27.55	30.51	23.88
By others	2.28	2.23	1.89
Unsubscribed -			
Purchased by underwriters	<u>2.58</u>	<u>2.81</u>	<u>3.03</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 2,259,103 shares at such price as the President, or in his absence the Vice President-Finance, might determine, but at not less than their par value of \$10 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. These matters 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 repay 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 February 29, 1964. Applicant reports that up to February 29, 1964, its expenditures for capital purposes for which it had not been reimbursed through the issue of permanent securities amounted to \$1,065,042,541.25, the amount having been provided primarily with depreciation money and retained earnings, that it has borrowed or expects to borrow approximately \$60,000,000 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 February 29, 1964, in the total amount of \$467,671,171.51, segregated as follows:

Electric	\$441,140,220.80
Gas	12,593,011.93
Water	1,005,791.55
Common utility	<u>12,932,147.23</u>
Total	<u>\$467,671,171.51</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 1964, the cost of capital additions and improvements will approximate the sum of \$255,000,000.

#### Capital Structure

It is estimated by applicant that about one-half of its capital expenditures for 1964 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 so doing it will maintain and improve its capital structure. Its ratios, as of April 30, 1964 and as adjusted to give effect to the proposed issue of common stock, are as follows:

	<u>April 30, 1964</u>	<u>Pro Forma</u>
Bonds	51.4%	50.2%
Preferred stock	13.3	12.9
Common stock equity	<u>35.3</u>	<u>36.9</u>
Total	<u>100.0%</u>	<u>100.0%</u>

At the close of business on April 30, 1964, 56,477,559 shares of common stock were outstanding. The book value is calculated to be \$16.54 a share on the basis of the April 30, 1964 recorded figures, and the market price recently has been reported at \$31-5/8. After adjusting for the three-for-one stock split which occurred in 1961, applicant's annual dividend rate per share of common stock over the past several years has been as follows:

<u>Period</u>	<u>Rate Per Share</u>
January, 1956 to October, 1958	\$0.80
October, 1958 to January, 1961	0.87
January, 1961 to January, 1962	0.93
January, 1962 to January, 1964	1.00

On March 11, 1964 and May 20, 1964 the Board of Directors declared quarterly dividends of 27-1/2 cents per share on the common stock for the first and second quarters of the year. The dividend for the second quarter is payable July 15, 1964 to stockholders of record on June 16, 1964 and consequently will not be payable on the shares contemplated in this proceeding.

Findings

From a review of the record we find that: (1) applicant will have need for additional funds from the issue of capital securities in order to meet its requirements and to proceed with its construction activities; (2) the issue of common stock, at this time, is desirable; (3) the proposed issue of common stock is for proper purposes; (4) applicant has been successful in the past in disposing of its common stock offerings under arrangements similar to those which it is now proposing; (5) 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 (6) such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

Conclusions

On the basis of the foregoing findings we conclude that we should 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 a supplemental application setting forth the proposed sale price and the terms of the underwriting agreement, we will consider making a final order.

Placing on Notice

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the authorization herein given is not to be construed as a finding of value of applicant's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company, on or after the effective date hereof and on or before December 31, 1964, 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 16, 1964, not to exceed 2,259,103 shares of its common stock, such shares to be offered to the holders of its 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, on or after the effective date hereof and on or before December 31, 1964, may issue and sell to underwriters such of said 2,259,103 shares of common stock as have not been subscribed and paid for pursuant to the offering to its 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 the company 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 2,259,103 shares of common stock to reimburse its treasury in part on account of capital expenditures made on or prior to February 29, 1964, 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 February 29, 1964.

4. On or before December 31, 1964, Pacific Gas and Electric Company shall file with the Commission a statement showing the number of common shareholders of record on June 16, 1964; 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 it in connection with the issue and sale of the 2,259,103 shares of stock. Such statement shall be filed in lieu of a report, or reports, under General Order No. 24-A.

5. As soon as available, Pacific Gas and Electric Company shall file with the Commission three copies of its final prospectus in connection with the offering of said shares of stock.

6. The authority herein granted to issue and sell said 2,259,103 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.

Dated at San Francisco, California, this 10th day of June, 1964.

William B. Stewart  
President  
Edward W. Rogers  
Fredrick B. Hallock

Commissioners

*I would require further justification of the request for exemption from the competitive bidding rule.*  
*George W. Thayer*