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Decision No. 89632

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN DIEGO GAS & )  
ELECTRIC COMPANY to issue and sell )  
not exceeding 2,500,000 shares of )  
its Common Stock, \$5 par value. )

Application No. 58394  
(Filed October 3, 1978)

O P I N I O N

San Diego Gas & Electric Company (SDG&E) requests authority to issue and sell not exceeding 2,500,000 shares of its common stock, having a par value of \$5 per share.

SDG&E is a California corporation engaged principally in the business of providing electric service in portions of Orange and Imperial Counties, and electric, gas, and steam service in portions of San Diego County. For the twelve months ended August 31, 1978, the utility reported total operating revenues of \$576,277,000 and net income of \$70,665,000.

The Company's construction budget for the year 1978 amounts to \$142,526,000, of which \$49,763,000 has been spent through the first eight months of the year. A classification of the budgeted construction follows:

<u>Description</u>	<u>Amount</u>
Electric Production	\$ 48,817,000
Electric Transmission	20,842,000
Electric Distribution	55,805,000
Gas Production, Transmission, and Distribution	14,000,000
Steam Department	50,000
Common Plant	<u>3,012,000</u>
Total	<u>\$142,526,000</u>

Unreimbursed construction expenditures were \$15,745,733 as of August 31, 1978, as set forth below:

<u>March 31, 1921 to August 31, 1978</u>	<u>Amount</u>
Net Construction Expenditures	\$1,496,985,846
Par Value of Redeemed Securities	<u>140,084,571</u>
Total	\$1,637,070,417

Deductions:

Amount not Bondable per Decision No. 10032	\$ 45,116
Proceeds from Sale of Bonds and Notes	739,613,211
Proceeds from Sale of Debentures	34,598,022
Proceeds from Sale of Preferred Stock	225,857,868
Proceeds from Sale of Common Stock	285,623,803
Depreciation Reserve	<u>335,586,664</u>
	<u>\$1,621,324,684</u>

Unreimbursed Construction as of August 31, 1978	<u>\$ 15,745,733</u>
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The net proceeds from the proposed sale of stock would be used for the retirement and discharge of a portion of the applicant's then outstanding short-term debt (estimated to be \$40,000,000) issued for temporary financing of additions to its utility plant, with the balance, if any, for the reimbursement of the utility for capital expenditures.

SDG&E has three wholly-owned subsidiaries: Applied Energy, Inc., Japatul Corporation, and New Albion Resources Company. The Commission's policy on the use of proceeds from utility debt and equity issues being applied to benefit subsidiaries is set forth in Decision No. 85468, dated October 3, 1978 in The Pacific Telephone and Telegraph Company's Application No. 58310, and Decision No. \_\_\_\_\_, dated November 9, 1978 in the Pacific Gas and Electric Company's Application No. 58338.

The Finance Division's results of operations report presented in SDG&E's Application No. 58067 presents information from which we conclude the three subsidiaries make a contribution to assist SDG&E in maintaining or improving its utility service. However, conditions may have changed, and it is reasonable to require SDG&E to not use the proceeds from the equity issue authorized herein to benefit any subsidiary that does not assist it in maintaining or improving its utility service. If, after the equity issue is sold, SDG&E has questions as a result of any changed circumstances, it should seek initial clarification from our Legal Division.

SDG&E's capitalization ratios, as recorded as of August 31, 1978, and as adjusted on a pro forma basis to give effect to the proposed stock issue assuming proceeds of \$37,500,000 (\$15 per share)<sup>1/</sup>, are as follows:

<u>Item</u>	<u>August 31, 1978</u>	
	<u>Recorded</u>	<u>Pro Forma</u>
First Mortgage Bonds	41.9%	40.7%
Debentures	1.9	1.9
Other Long-Term Debt	4.6	4.4
Preferred and Preference Stock	16.5	16.0
Common Stock Equity	<u>35.1</u>	<u>37.0</u>
Total	<u>100.0%</u>	<u>100.0%</u>

SDG&E plans to issue and sell the stock on a negotiated basis through a group of underwriters represented by Merrill Lynch, Pierce, Fenner & Smith Incorporated and Blyth Eastman Dillon & Co. Incorporated. A preliminary copy of the underwriting agreement is attached to the application as Exhibit D. The final terms of the agreement and other terms of the proposed offering, including the price of the stock, the aggregate number of shares to be offered, and the underwriting spread with respect thereto,

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<sup>1/</sup> On October 6, 1978, SDG&E's common stock closed at 15-1/2.

will be determined by negotiation between SDG&E and the underwriters shortly before the proposed public offering; provided, that the price of the stock to be paid to SDG&E by said underwriters shall not be less than 90% of the last reported sales price of the stock on the New York Stock Exchange prior to the time said price is fixed.

The Finance Division of the Commission's staff reviewed the application and has concluded that the proceeds from the proposed sale of common stock are needed for the purposes specified.

The Operations Division of the Commission staff, in connection with the capital budget attached to the application as Exhibit B, has reviewed SDG&E's construction budget. The Operations Division has no objection to the proposed security issue and believes that the expenditures estimated for the year 1978 are not unreasonable.

After consideration the Commission finds that:

1. If the proceeds from the issue and sale of stock are not used for the benefit of any subsidiary that does not assist SDG&E in maintaining or improving its utility service, the proposed stock would be for proper purposes.
2. SDG&E has need for external funds for the purposes set forth in this proceeding.
3. The money, property or labor to be procured or paid for by the stock herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part reasonably chargeable to operating expenses or to income.

There is no known opposition and there is no reason to delay granting the authority requested in the application. The Commission therefore concludes that the application should be granted. A public hearing is not necessary. Because of the time element relative to issuance of the common stock, SDG&E requests that the order become effective on the date hereof.

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

SDG&E is placed on further notice that the reasonableness of the price or underwriting compensation pertaining to the proposed negotiated stock offering may be subject to further consideration in future rate proceedings.

O R D E R

IT IS ORDERED that:

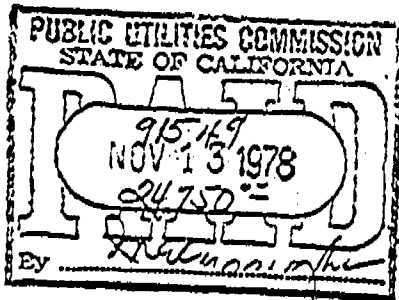
1. San Diego Gas & Electric Company, on or after the effective date hereof and on or before March 31, 1979, may issue and sell not exceeding 2,500,000 shares of its \$5 par value common stock on terms and conditions to be negotiated with underwriters.
2. San Diego Gas & Electric Company shall apply the net proceeds from the sale of the stock herein authorized to the purposes set forth in the application, except that no part of the proceeds of such issuance shall be used for the benefit of, or to reimburse the treasury of San Diego Gas & Electric Company on account of, expenditures on behalf of any of its subsidiaries that do not assist the utility in maintaining or improving its utility service.
3. Promptly after San Diego Gas & Electric Company ascertains the underwriting commission and the price to be paid for the common stock herein authorized, the company shall notify the Commission thereof in writing.

4. As soon as available, San Diego Gas & Electric Company shall file with the Commission three copies of its final prospectus pertaining to said stock.

5. San Diego Gas & Electric Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

6. This order shall become effective when San Diego Gas & Electric Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$24,750.

Dated at San Francisco, California, this 9th day of NOVEMBER, 1978.



Robert Bateman  
President  
William J. ...  
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Commissioners