

5100 A

PROSPECTUS

314,625 Shares

SAN DIEGO GAS & ELECTRIC COMPANY

Cumulative Preferred Stock, 5% Series, \$20 par value

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION

San Diego Gas & Electric Company has registered the securities by filing certain information with the Commission. The Commission has not passed on the merits of any securities registered with it.

IT IS A CRIMINAL OFFENSE TO REPRESENT THAT THE COMMISSION HAS APPROVED THESE SECURITIES OR HAS MADE ANY FINDING THAT THE STATEMENTS IN THIS PROSPECTUS OR IN THE REGISTRATION STATEMENT ARE CORRECT.

	Price to Public	Underwriting Discounts or Commissions		Proceeds to Company	
Total.....	\$7,236,375*	Minimum	\$ 51,126.75†	Maximum	\$7,185,248.25†*
		Maximum	137,649.25†	Minimum	7,098,725.75†*
Per Unit.....	\$23*	Minimum	\$.1625†	Maximum	\$22.8375†*
		Maximum	.4375†	Minimum	22.5625†*

\*Exclusive of accrued dividends. As more particularly set forth under the caption "Offers," the Company is offering the shares offered hereby to the holders of its Seven Per Cent. Cumulative Preferred Stock in an Offer of Exchange on the basis of 5 shares of the Cumulative Preferred Stock, 5% Series, \$20 par value (together with an amount equal to the accrued and unpaid dividends on the Seven Per Cent. Cumulative Preferred Stock on the date of issuance of the shares offered hereby) for each share of Seven Per Cent. Cumulative Preferred Stock. For the purposes of this statement only, in computing the price to the public and the proceeds to the Company of the shares offered hereby with respect to which acceptances are received pursuant to the Offer of Exchange, the Seven Per Cent. Cumulative Preferred Stock (which may be received) is stated in terms of cash on the basis of its redemption price of \$115 per share (exclusive of accrued dividends).

†The minimum Underwriting Discounts or Commissions would be paid and the maximum proceeds would be received if all of the shares offered hereby by the Company on the Offer of Exchange were accepted by holders of the Seven Per Cent. Cumulative Preferred Stock pursuant to the Offer of Exchange and no commissions were paid, as provided in the agreement referred to under the caption "Terms of Offering," with respect to any shares as to which acceptances were received pursuant to the Offer of Exchange. The maximum Underwriting Discounts or Commissions would be paid and the minimum proceeds would be received in the event that acceptances were received pursuant to the Offer of Exchange with respect to exactly 157,310 shares, that exactly 157,315 shares were purchased by the several Underwriters, and that commissions were paid, as provided in said agreement, with respect to all of such shares.

TO FACILITATE THE OFFERING, IT IS INTENDED TO STABILIZE THE PRICE OF THE CUMULATIVE PREFERRED STOCK, 5% SERIES, \$20 PAR VALUE IN THE OVER-THE-COUNTER MARKET. THIS STATEMENT IS NOT AN ASSURANCE THAT THE PRICE OF THE ABOVE SECURITY WILL BE STABILIZED OR THAT THE STABILIZING, IF COMMENCED, MAY NOT BE DISCONTINUED AT ANY TIME.

The several principal Underwriters of the shares offered hereby with respect to which acceptances are not received pursuant to the Offer of Exchange are stated on pages 16 and 17 hereof. The principal Underwriter of the shares offered pursuant to the Offer of Exchange is

Blyth & Co., Inc.

No dealer, salesman, or any other person has been authorized by the Company or by any Underwriter named herein to give any information or to make any representations, other than those contained in this Prospectus, in connection with the offer contained in this Prospectus, and information or representations not herein contained, if given or made, must not be relied upon as having been authorized by the Company or by any of the Underwriters. This Prospectus does not constitute an offering by the Company or any Underwriter in any state in which such offering may not lawfully be made.

The date of issue of this Prospectus is September 28th, 1940.

## REGISTRATION STATEMENT

San Diego Gas & Electric Company (formerly named San Diego Consolidated Gas & Electric Company and herein called the "Company") was incorporated under the laws of the State of California on April 6, 1905. Its principal executive offices are in the Electric Building, 861 Sixth Avenue, San Diego, California. The Company has filed with the Securities and Exchange Commission, Washington, D. C., a Registration Statement, form A-2 (which, together with all amendments thereto, is herein referred to as the "Registration Statement") under the Securities Act of 1933, with respect to 314,625 shares of the Cumulative Preferred Stock, 5% Series, \$20 par value, offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement, certain items of which are omitted or included in condensed or summarized form as permitted by the rules and regulations of said Commission. This Prospectus also includes certain information not included in the Registration Statement. For further information with respect to the securities to which this Prospectus relates, reference is made to the Registration Statement, including the Financial Statements and Schedules and Exhibits filed as part thereof.

## TABLE OF CONTENTS

	Page
Offers .....	3
Capitalization and Funded Debt .....	3
Summary of Earnings .....	4
History and Business .....	5
Development of Business .....	7
Property .....	9
Franchises and Concessions .....	10
Description of Capital Stock .....	12
Proposed Issuance of Bonds .....	15
Purpose of Issue .....	16
Underwriters .....	16
Terms of Offering .....	17
Legality .....	20
Management and Control .....	20
Government Projects and Business Competition .....	23
Municipal and Government Ownership .....	24
Sources of Possible Damage From Forces of Nature .....	24
Employee Relations .....	24
Regulation by Securities and Exchange Commission Under the Public Utility Holding Company Act of 1935 .....	25
Legal Proceedings .....	25
Historical Financial Information .....	26
Depreciation and Amortization Policy .....	26
Experts .....	26
Financial Statements .....	26
Further Information Contained in the Registration Statement .....	35

314,625 Shares

# SAN DIEGO GAS & ELECTRIC COMPANY

## Cumulative Preferred Stock, 5% Series, \$20 par value

*Transfer Agent*  
FIRST NATIONAL TRUST AND SAVINGS BANK  
OF SAN DIEGO  
SAN DIEGO, CALIFORNIA

*Registrar*  
BANK OF AMERICA N. T. & S. A.  
SAN DIEGO, CALIFORNIA (Main Office)

### OFFERS

#### Offer of Exchange to expire October 3, 1940.

San Diego Gas & Electric Company by this Prospectus offers (subject to the condition hereinafter mentioned) to the holders of its Seven Per Cent. Cumulative Preferred Stock the privilege of exchanging each share of Seven Per Cent. Cumulative Preferred Stock, par value \$100, for five shares of Cumulative Preferred Stock, 5% Series, \$20 par value, together with an amount equal to the accrued and unpaid dividends on the Seven Per Cent. Cumulative Preferred Stock on the date of issuance of the Cumulative Preferred Stock, 5% Series, \$20 par value. This offer (herein called the "Offer of Exchange") is made subject to the condition that the Company shall on or before October 25, 1940, sell and receive payment for all the 314,625 shares of Cumulative Preferred Stock, 5% Series, \$20 par value, with respect to which acceptances are not received by the Company from the holders of its Seven Per Cent. Cumulative Preferred Stock pursuant to this Offer of Exchange. This Offer of Exchange can be accepted by the holders of Seven Per Cent. Cumulative Preferred Stock only by delivery to, and receipt by, the Company not later than the close of business (5 P. M. Pacific Standard Time) on October 3, 1940, of the letters of acceptance, in the form furnished by the Company, duly executed, with signature guaranteed, accompanied by the certificates for the Seven Per Cent. Cumulative Preferred Stock offered for exchange. Acceptances may be made at the main office of the Company at 861 Sixth Avenue, San Diego, California, or at Room 1100, 231 South La Salle Street, Chicago, Illinois.

If the exchange pursuant to the Offer of Exchange is consummated, all shares of Seven Per Cent. Cumulative Preferred Stock received by the Company pursuant to the Offer of Exchange will be retired and all remaining shares will be redeemed at the redemption price of \$115 per share plus accrued dividends.

#### Public Offering after October 3, 1940.

The Underwriters named herein, by an Underwriting Agreement, (such agreement being subject to certain conditions upon the happening of which the Underwriters shall have the right to terminate this Agreement) have severally agreed that if acceptances are received by the Company with respect to at least 157,310 shares of Cumulative Preferred Stock, 5% Series, \$20 par value, pursuant to the Offer of Exchange, to purchase from the Company, for delivery and payment on October 8, 1940 (or such other time as may be agreed upon as provided in the Underwriting Agreement), all the Cumulative Preferred Stock, 5% Series, \$20 par value, with respect to which acceptances shall not have been received by the Company pursuant to the Offer of Exchange. By an agreement between the underwriters, each of the several Underwriters has named Blyth & Co., Inc. as its representative and has authorized Blyth & Co., Inc., in its discretion, to determine whether a public offering shall be made of the Cumulative Preferred Stock, 5% Series, \$20 par value, to be purchased by them in accordance with the provisions of such agreement. Such public offering, if made, will be made either (i) exclusively by the several Underwriters, or (ii) in part by one or more of the several Underwriters and in part by certain dealers (referred to as "Selected Dealers") to whom the Cumulative Preferred Stock, 5% Series, \$20 par value, may be sold. It is intended that the Cumulative Preferred Stock, 5% Series, \$20 par value, will be originally offered to the public at \$23 per share (exclusive of accrued dividends). Certain provisions of the Underwriting Agreement (including the conditions mentioned above), the Agreement Between Underwriters, and the agreement to be made with Selected Dealers if sales are made to them are summarized in this Prospectus under the caption "Terms of Offering."

### CAPITALIZATION AND FUNDED DEBT

The Capitalization and Funded Debt as of June 30, 1940 is set forth in Column I below. The Capitalization and Funded Debt as it will be upon completion of the following proposed transactions (i) the issue of the Bonds referred to in this Prospectus under the caption "Proposed Issuance of Bonds," and redemption of the First Mortgage Bonds, 4% Series due 1965, of the Company presently outstanding and also referred to under said caption; (ii) the amendment of the Articles of Incorporation referred to under the cap-

tion "Description of Capital Stock"; and (iii) issuance of the Cumulative Preferred Stock, 5% Series, \$20 par value, offered hereby, and retirement of the Seven Per Cent. Cumulative Preferred Stock upon exchange pursuant to the Offer of Exchange and by the redemption thereof, is set forth in Column II.

	COLUMN I		COLUMN II	
	Authorized	Outstanding	To Be Authorized	To Be Outstanding
Funded Debt:				
First Mortgage Bonds, 4% Series due 1965	Not Limited*	\$15,500,000		
First Mortgage Bonds, 3¾% Series due July 1, 1970			Not Limited*	\$16,000,000
Capital Stock:				
Seven Per Cent. Cumulative Preferred Stock, \$100 par value	\$6,292,500	\$6,292,500		
Six Per Cent. Cumulative Preferred Stock, \$100 par value	\$8,707,500	None		
Cumulative Preferred Stock, 5% Series, \$20 par value			\$11,000,000	\$6,292,500
Cumulative Preferred Stock, Series B (dividend rate undetermined), \$20 par value			\$4,000,000	None
Common Stock, \$100 par value	\$15,000,000	\$10,032,500		
Common Stock, \$10 par value			\$15,000,000	\$10,032,500

\*Additional bonds may be issued under the Indenture only upon compliance with the provisions thereof.

In its application to the Railroad Commission of the State of California for authority to issue and sell or exchange shares of its Cumulative Preferred Stock, 5% Series, \$20 par value, the Company requested permission to credit the amount of the premiums to be received by it from the sale of shares of such stock to underwriters, namely \$3 per share, to Paid-in Surplus or Capital Surplus, and to charge against such surplus the redemption premiums upon the shares of Seven Per Cent. Cumulative Preferred Stock to be redeemed. The Board of Directors of the Company will determine by resolution that such premiums to be received upon the sale of said shares of Cumulative Preferred Stock, 5% Series, \$20 par value, will be credited to Paid-in or Capital Surplus and the premiums to be paid upon such Seven Per Cent. Cumulative Preferred Stock will be charged thereto, or, in both cases, in such other manner as the Railroad Commission may prescribe in its order.

#### SUMMARY OF EARNINGS

The following summary of earnings of the Company for the years ended December 31, 1937, 1938, and 1939, and for the six months ended June 30, 1940, which has been reviewed by Messrs. Haskins & Sells, independent public accountants, is based upon the Statement of Income appearing on page 32 hereof and is subject to the accompanying notes thereto, which should be read in connection with such summary (see Note under "Financial Statements" on page 26 hereof):

	Year Ended December 31			Six Months Ended
	1937	1938	1939	June 30, 1940
Operating Revenues:				
Electric department	\$5,062,676.10	\$5,332,951.55	\$5,466,280.47	\$2,899,392.24
Gas department	3,056,943.87	3,082,472.70	3,102,579.73	1,740,900.23
Steam department	76,542.77	69,045.08	64,778.88	35,830.31
Total operating revenues	\$8,196,162.74	\$8,484,469.33	\$8,633,639.08	\$4,676,122.78
Operating Expenses:				
Operation	\$3,019,522.75	\$3,065,069.72	\$3,094,155.08	\$1,611,716.64
Maintenance	532,910.11	614,759.33	743,669.56	311,921.19
Depreciation	1,285,000.00	1,355,000.00	1,379,851.40	770,000.00
Amortization of limited-term invest- ments (patents and franchises)		460.48	428.95	
Taxes other than Federal income taxes	1,153,409.89	1,053,042.99	1,170,171.82	629,690.01
Total operating expenses	\$5,990,842.75	\$6,088,332.52	\$6,388,276.81	\$3,323,327.84
Net Operating Income	\$2,205,319.99	\$2,396,136.81	\$2,245,362.27	\$1,352,794.94
Total other income, net	\$ 3,006.59	\$ 597.36	\$ 2,445.32	\$ 18.68
Gross Income	\$2,208,326.58	\$2,396,734.17	\$2,247,807.59	\$1,352,813.62
Income Deductions:				
Interest on funded debt	\$ 620,000.00	\$ 620,000.00	\$ 620,000.00	\$ 310,000.00
Amortization of debt discount and expense	61,953.72	61,953.72	61,953.72	30,976.86
Other interest	9,069.49	10,270.89	7,751.50	6,232.73
Interest charged to construction	36,563.15*	23,714.10*	20,478.83*	3,350.16*
Miscellaneous		7,670.00	8,261.60	4,557.94
Total income deductions	\$ 654,460.06	\$ 676,180.51	\$ 677,487.99	\$ 348,417.37
Net Income Before Provision for Federal Income Taxes	\$1,553,866.52	\$1,720,553.66	\$1,570,319.60	\$1,004,396.25
Provision for Federal Income Taxes	222,000.00	250,000.00	237,775.00	155,000.00
Net Income	\$1,331,866.52	\$1,470,553.66	\$1,332,544.60	\$ 849,396.25

\*Denotes credit.

NOTE: Upon the issuance of the securities to be outstanding as shown by Column II under "Capitalization and Funded Debt," annual interest charges on Funded Debt will be \$540,000 and annual Preferred Stock dividend requirements will be \$314,625.

## HISTORY AND BUSINESS

### General Character of Business.

The Company is an operating public utility company. It has been engaged in the electric and gas business since 1905 and in the steam heating business since 1920, and expects to continue to be engaged in these businesses.

The Company generates, purchases, transmits, distributes and sells electric energy for light, power and heat to domestic, commercial, industrial, agricultural and municipal customers in the territory principally along the coast of Southern California embracing the City of San Diego and practically all the other cities and towns and the major part of the agricultural sections of San Diego County, and a small portion of Orange County. The Company also purchases, distributes and sells natural gas at retail in the City of San Diego and adjoining communities, in the territory along the coast northerly as far as the Orange-San Diego County line, and inland in Escondido and El Cajon. The gas is purchased from the Southern Counties Gas Company and is delivered to the Company within the corporate limits of the Cities of San Diego and Oceanside and elsewhere in San Diego County. The Company also supplies a limited area of the main business district of the City of San Diego with steam heat.

Retail electric service is furnished in 44 communities and adjacent rural territories having an estimated aggregate population, based upon tentative Federal Census for the year 1940, of approximately 285,000, all in the State of California. Gas service is furnished at retail in 19 of these communities and in adjacent rural territories having an estimated aggregate population, based upon tentative Federal Census for the year 1940, of approximately 265,000.

During the twelve months ended June 30, 1940, approximately 63% of the gross operating revenues of the Company was derived from the sale of electricity, 36% from the sale of gas and 1% from the sale of steam. During this period approximately 71% of the total electric and gas operating revenues and all of the steam operating revenues were derived from sales within the corporate limits of the City of San Diego.

The following is a list of the incorporated cities in San Diego County served by the Company:

Name of Community	Service Furnished	Population Federal Census	
		1930	1940 (Tentative)
San Diego	Electric, gas and steam	147,995	202,038
National City	Electric and gas	7,301	10,204
Coronado	Electric and gas	5,425	6,908
Chula Vista	Electric and gas	3,869	5,126
Oceanside	Electric and gas	3,508	4,642
Escondido	Electric and gas	3,421	4,552
La Mesa	Electric and gas	2,513	3,912
El Cajon	Electric and gas	1,050	1,475

In addition, the Company serves with gas and electricity all the territory in the unincorporated areas of San Diego County (the tentative Federal Census for which for 1940 is 50,616) except portions inhabited by approximately 5,000 persons, and it serves a small part of Orange County with electricity.

The Company sells electric energy to San Diego Electric Railway Company, a non-affiliated company, which furnishes electric street railway transportation in the City of San Diego, approximately 2% of the Company's operating revenues being derived from that source. The Company also sells electric energy at wholesale to M. P. Barbachano and Border Telephone & Light Company at Tecate, San Diego County, for resale in Lower California, Mexico; to The Nevada-California Electric Corporation at the border of San Diego County near Rainbow; and to the Mountain Empire Electric Cooperative, Incorporated, at Potrero, San Diego County.

The electric system of the Company is interconnected with the system of Southern California Edison Company, Ltd., at San Juan Capistrano, Orange County, with that of The Nevada-California Electric Corporation at Rincon and with the system of Escondido Mutual Water Company at Rincon and at Escondido, San Diego County. Electric energy is interchanged with these companies under interchange agreements. The Company has recently entered into a contract with Southern California Edison Company, Ltd., providing for additional interchange facilities connecting the transmission systems of the two

companies. Under this contract, it is expected that the Company will purchase considerable amounts of both demand and surplus energy from Southern California Edison Company, Ltd.

Until the latter part of 1932, the Company furnished manufactured gas in the various communities served with gas, at which time natural gas was substituted throughout the territory except at Escondido where the substitution was not made until 1936. The Company is still equipped to furnish manufactured gas in cases of emergencies.

The Company operates 13 branch offices in the territory served, at which it displays and sells either electric or gas appliances or both.

San Diego has an exceptionally fine harbor and is an important center of activities of the United States Navy and Marine Corps, including both shore stations and the bases of operations of certain auxiliary elements of the Fleet. While the forces afloat are in port, families of the officers and men comprise an appreciable portion of the population which, to this extent, is subject to fluctuation based on the presence or absence of the various units of the Fleet. Local industries, such as aircraft and accessories manufacturing plants recently developed, are large users of the Company's gas and electric service. The existing war conditions abroad and defense preparations in the United States are tending to bring about an expansion in these industries, the extent and continuance of which is uncertain.

#### **Jurisdiction of Railroad Commission of the State of California.**

Since March 23, 1912, the Company has been subject to the jurisdiction of the Railroad Commission of the State of California under the Constitution and the Public Utilities Act of that State. The Commission is vested with powers, among others, with respect to financing, accounting, rates, and conditions of service.

#### **Rates.**

The more important rates established and in effect at the present time are summarized as follows:

##### **ELECTRIC—DOMESTIC AND COMMERCIAL RATES**

Schedules for domestic service are fixed for two zones, namely, within incorporated limits and without incorporated limits. The rate for domestic service consists of a minimum monthly charge of 90c per meter which includes 12 kwhr of service. The excess used above this amount is sold at rates of from 4.3c per kwhr in unincorporated territory and 3.3c per kwhr in incorporated areas, down to 1c per kwhr in cases where an electric range and a controlled water heater are used.

The commercial lighting rates are also fixed for two zones, one for territory within incorporated limits and the other for territory outside of incorporated limits. The minimum charge is 90c per meter per month which includes 12 kwhr. The excess used is sold at a rate of from 4.1c per kwhr in unincorporated territory and 3.3c per kwhr in incorporated areas, down to .7c per kwhr in both areas.

##### **ELECTRIC—POWER RATES**

General power service is supplied on a load-factor schedule at rates ranging from 3.9c per kwhr to as low as .6c per kwhr, intermediate levels being determined by the load-factor and the size of the installation. Wholesale power service is supplied on a two-part type load-factor schedule, the demand charge being from \$1.25 to 75c per kw of demand per month and the basic energy charge being from .95c to .65c per kwhr. This rate varies with the cost of fuel used for electric generation. Agricultural power service is supplied on a two-part type load-factor schedule, the service charge ranging from \$6.50 per hp per year for small plants to \$3.60 per hp per year for plants of 500 hp and over, the energy rate ranging from 1.5c per kwhr to .7c per kwhr.

##### **GAS—DOMESTIC AND COMMERCIAL RATES**

The Company sells natural gas both for domestic and commercial use under two schedules, one applying to territory known as the metropolitan district which covers the cities of San Diego, National City and Coronado, and the other to the rest of the territory served. In the metropolitan district a minimum charge of 90c per meter per month applies, for which 200 cu. ft. of gas are allowed. Excess gas is sold at the rate of from 12.5c per 100 cu. ft. for the second block of 700 cu. ft. down to as low as 6c

per 100 cu. ft. for all over 6,000 cu. ft. per meter per month. The schedule for all other natural gas territory served carries a minimum monthly charge of \$1.15, for which are allowed 200 cu. ft. of gas per meter per month, the excess being sold at the rate of from 12.5c per 100 cu. ft. for the second block of 700 cu. ft. down to as low as 6c per 100 cu. ft. for all in excess of 6,000 cu. ft. per meter per month.

The natural gas served by the Company has a heat content of approximately 1100 B. t. u. per cu. ft.

#### GAS—INDUSTRIAL RATES

The Company supplies surplus natural gas to industrial plants for fuel purposes, which service is subject to temporary discontinuance in the event that the supply of natural gas is insufficient to provide for the requirements of all other customers. The rates for natural gas so supplied carry a minimum charge based on the burner capacity with a minimum of \$35 per month for a 500 cu. ft. hourly burner capacity or less, and with an increased minimum charge for larger burners. The base rate for this fuel varies from 50c per 1,000 cu. ft. to as low as 17c per 1,000 cu. ft. This rate is also based on the purchase price of surplus gas and increases and decreases within certain limits with the cost of surplus gas to the Company.

#### STEAM RATES

The Company furnishes low pressure steam heating service in the main business district of the City of San Diego. Steam is sold at a rate running from 89c per 1,000 lbs. for the first 75,000 lbs. down to 62c per 1,000 lbs. for consumptions in excess of 300,000 lbs. per meter per month. A minimum charge is required of not less than \$2.50 per month up to \$20 per month depending on the size of installation. An optional schedule for steam heating service consists of a service charge of \$50 per month plus a basic commodity charge of 40c per 1,000 lbs. The commodity charge is subject to variation based on the cost of fuel used by the Company.

The last formal proceeding before the Railroad Commission of the State of California relating to the Company's rates was decided by the Commission on February 4, 1935 (Decision 27730). Since then the Commission has adopted a plan of keeping the rates of public utilities under continuous observation, and pursuant to the plan, at approximately annual intervals, informal discussions have been had between the Company and representatives of the Commission and of the City of San Diego (which employs a utility consultant for the purpose of making similar observations), with the result that several rate reductions in various amounts have been made by mutual agreement. The Company has agreed with the Railroad Commission of the State of California and the City of San Diego to reduce electric and gas rates of the Company, which reduction, if applied to the Company's estimated sales for the calendar year 1940, would reduce the gross revenues for such period from electricity by approximately \$130,000 and from gas by approximately \$74,000. The new rates are to be effective on all meter readings on and after November 1, 1940. A further investigation of the Company's operations to determine the possibility of additional rate reductions will be commenced by the Commission's engineers on or about December 1, 1940.

#### DEVELOPMENT OF BUSINESS

During the past five years the business of the Company has not changed in any essential character, but has fluctuated with the requirements for service of the communities which it serves. During this period there has been a downward tendency in the rates charged by the Company and an upward tendency both in the number of customers served and in the use per customer.

The Company has during the past five years extended its transmission and distribution facilities into whatever contiguous territories warranted such extensions. During the year 1938 the Company placed in operation at its Station "B" a new turbo-generator, having a rated capacity of 35,000 kilowatts, together with two additional boilers, at a cost of approximately \$1,900,000.

As required by the contract with Southern California Edison Company, Ltd., the Company is building a 132,000 volt transmission line and a substation with a capacity of 36,000 kilovolt-amperes for the interchange of electric energy with Southern California Edison Company, Ltd., at an estimated cost of \$850,000.

The following tables set forth certain statistics relating to the business of the Company for the five calendar years, 1935 to 1939, both inclusive, and for the twelve months' period ended June 30, 1940.

	1935	1936	1937	1938	1939	12 Months Ended June 30 1940
<b>Electric Energy Generated, Purchased and Sold (kilowatt hours):</b>						
Generated (less station loss and use)	202,625,775	228,809,200	220,535,400	218,798,300	247,690,000	272,494,000
Purchased (from non-affiliated companies) (Note 1)	2,711,823	3,115,360	15,121,475	29,663,549	16,336,690	11,864,500
Total generated and purchased	205,337,598	231,924,560	235,656,875	248,461,849	264,026,690	284,358,500
Company use	3,135,551	3,192,122	3,246,344	3,435,927	3,642,968	3,695,047
Lost and unaccounted for	31,251,806	34,483,685	35,666,327	35,860,352	38,675,982	39,341,880
Balance (total energy sold)	170,950,241	194,248,753	196,744,204	209,165,570	221,707,740	241,321,573
<b>Electric Sales (Note 1):</b>						
Residential	40,829,369	48,218,678	57,706,688	64,712,662	71,310,054	74,990,231
Commercial	41,255,744	43,925,629	46,357,183	51,170,733	57,180,666	62,540,394
Power—other than agricultural	42,005,890	57,218,739	49,719,656	48,663,550	49,742,215	58,813,325
Agricultural power	13,037,956	15,144,940	13,556,343	14,939,478	13,886,690	14,252,354
Railroad corporations	15,442,000	15,804,000	15,571,000	15,972,000	14,780,000	15,183,000
Other electrical corporations:						
Under interchange agreements (Note 1)	2,354,278	1,164,212	234,488	(See Note 1)	(See Note 1)	(See Note 1)
Other	4,046,842	85,800	820,000	785,200	1,600,960	2,000,880
Municipal street lighting	5,555,073	5,697,254	5,899,347	6,286,153	6,438,611	6,571,366
Miscellaneous municipal sales	6,423,089	6,989,501	6,879,499	6,635,794	6,768,544	6,970,023
Total Sales	170,950,241	194,248,753	196,744,204	209,165,570	221,707,740	241,321,573
<b>Gas Manufactured, Purchased and Sold (1,000 cubic feet):</b>						
Natural gas purchased (non-affiliated companies)	5,235,756	5,661,477	5,666,725	5,875,272	6,473,912	6,890,331
Manufactured—oil gas	16,914	16,551	2,874	27,928	3,316	1,768
Net increase in gas in storage	194	1,309*	238*	403	68	423
Totals	5,252,864	5,676,719	5,669,361	5,903,603	6,477,296	6,892,522
Gas used by Company in steam electric generating plant	3,093,163	3,376,244	2,907,730	3,175,162	3,638,841	4,011,778
Other Company use	20,006	24,320	23,028	27,649	27,281	31,871
Lost and unaccounted for	277,384	279,070	275,673	208,228	182,771	186,289
Balance (total gas sold)	1,862,311	1,997,085	2,462,930	2,492,564	2,628,403	2,662,584
<b>Gas Sales:</b>						
Residential	1,256,315	1,292,354	1,547,156	1,576,473	1,666,635	1,654,862
Commercial	493,290	509,653	583,791	602,041	613,825	636,160
Industrial	112,706	195,078	331,983	314,050	347,943	371,562
Total Sales	1,862,311	1,997,085	2,462,930	2,492,564	2,628,403	2,662,584
<b>Sales of Steam for Heating (1,000 pounds)</b>						
	97,789	93,479	107,525	97,019	91,509	80,658
<b>Operating Revenues:</b>						
<b>Electric (Note 1):</b>						
Residential	\$1,947,464.54	\$2,032,143.29	\$2,177,005.31	\$2,344,882.34	\$2,447,060.83	\$2,534,755.39
Commercial	1,347,660.89	1,339,736.24	1,352,888.60	1,457,337.30	1,485,734.16	1,562,313.03
Power—other than agricultural	760,450.41	905,003.23	818,576.42	798,387.49	808,219.75	873,835.26
Agricultural power	232,446.03	259,163.11	230,756.78	248,331.96	236,450.61	239,772.42
Railroad corporations	151,167.27	153,939.05	154,540.34	151,783.15	139,792.21	140,930.99
Other electrical corporations:						
Under interchange agreements (Note 1)	16,971.04	17,073.79	8,517.79	(See Note 1)	(See Note 1)	(See Note 1)
Other	50,220.94	2,171.51	9,784.06	9,637.22	16,874.34	21,538.43
Municipal street lighting	176,511.44	181,091.96	178,743.90	184,333.21	185,356.10	186,775.60
Miscellaneous municipal sales	117,669.52	127,433.09	122,733.52	119,017.37	124,612.92	127,193.78
Miscellaneous revenues	4,837.80	5,397.14	9,129.38	19,241.51	22,179.55	23,021.76
Total Electric	\$4,805,399.88	\$5,023,152.41	\$5,062,676.10	\$5,332,951.55	\$5,466,280.47	\$5,710,136.66
<b>Gas:</b>						
Residential	\$2,074,330.92	\$2,136,021.08	\$2,390,988.24	\$2,423,471.25	\$2,456,860.44	\$2,440,103.42
Commercial	549,161.91	563,921.12	591,266.10	585,781.77	568,660.71	553,812.31
Industrial	25,734.65	41,483.66	73,895.56	70,552.47	74,507.11	77,098.60
Miscellaneous revenues	848.30	1,165.69	793.97	2,667.21	2,551.47	3,417.11
Total Gas	\$2,650,075.78	\$2,742,591.55	\$3,056,943.87	\$3,082,472.70	\$3,102,579.73	\$3,074,431.44
<b>Steam:</b>						
	\$ 69,417.25	\$ 67,534.54	\$ 76,542.77	\$ 69,045.08	\$ 64,778.88	\$ 58,177.35
Total Operating Revenues	\$7,524,892.91	\$7,833,278.50	\$8,196,162.74	\$8,484,469.33	\$8,633,639.08	\$8,842,745.45

\*Denotes red figure.  
See following page for Notes.



	1935	1936	1937	1938	1939	12 Months Ended June 30 1940
Number of Customers Served (at End of Year):						
Electric (Notes 1 and 2):						
Residential	64,882	68,192	71,232	73,126	77,346	78,440
Commercial	11,318	11,773	12,182	12,575	12,999	13,311
Power—other than agricultural	3,204	3,201	3,253	3,281	3,281	3,295
Agricultural Power	1,528	1,616	1,607	1,634	1,648	1,664
Railroad corporations	1	1	1	1	1	1
Other electrical corporations:						
Under interchange agreements. (Note 1)	2	2				
Other	1	1	1	1	2	3
Municipal street lighting	101	101	101	101	104	107
Miscellaneous municipal	19	19	19	19	16	16
<b>Total Electric Customers</b>	<b>81,056</b>	<b>84,906</b>	<b>88,396</b>	<b>90,738</b>	<b>95,397</b>	<b>96,837</b>
Gas:						
Residential	57,868	60,389	62,678	63,862	67,621	68,034
Commercial	5,843	6,072	6,283	6,612	6,792	6,540
Industrial	12	21	29	31	31	32
<b>Total Gas Customers</b>	<b>63,723</b>	<b>66,482</b>	<b>68,990</b>	<b>70,505</b>	<b>74,444</b>	<b>74,606</b>
Steam:						
<b>Total Steam Customers</b>	<b>99</b>	<b>103</b>	<b>101</b>	<b>97</b>	<b>96</b>	<b>97</b>

NOTES: (1) As of January 1, 1938 the Company adopted the Uniform System of Accounts for Electrical Corporations prescribed by the Railroad Commission of the State of California, which became effective as of that date and which differed in certain respects from the system of accounts previously in use. For comparative purposes in the foregoing statement electric operating revenues are stated for all periods on the basis of the operating revenue classifications in use prior to January 1, 1938, except as explained below in respect of interchange power credits for periods subsequent to 1937. In the preparation of the statements of kwhr generated, purchased and sold and the statements of customers served, the same procedure was followed. Prior to January 1, 1938, kwhr received and delivered under interchange agreements were classified as purchases and sales, respectively; the revenue from such sales as operating revenue, and the purchasers as customers. Since January 1, 1938, in conformance with the classification of accounts effective as of that date, revenue from, or cost of, net kwhr delivered or received under such agreements is credited or charged to operating expenses, and the net kwhr classified as purchased. All purchases of electricity shown were made under interchange agreements.

(2) The information as to electric customers served as of December 31, 1935, 1936 and 1937, has been adjusted on the basis of a survey of electric customers made during 1938.

## PROPERTY

The plants and important units owned by the Company consist of a steam-electric generating station, substations, electric transmission and distribution facilities, gas generating plants, gas transmission, storage and distribution facilities, and a steam distribution system serving commercial steam heat, all located either in San Diego County or in the southern portion of Orange County, California.

The Company's steam-electric generating station, known as Station "B," is located at Broadway and Kettner Boulevard in the City of San Diego and has a rated capacity of 99,000 kilowatts in 5 turbo-generators as follows:

Rated Capacity of Units (kilowatts)	Year of Installation
6,000	1914
15,000	1922
15,000	1926
28,000	1927
35,000	1938

The total simultaneous productive capacity is limited by boiler capacity to approximately 89,000 kilowatts. The plant is equipped to burn either natural gas or fuel oil. The water tunnels appurtenant to this plant, which have been constructed and in operation for a number of years, are constructed under the tracks of the Atchison, Topeka and Santa Fe Railway Company pursuant to contracts with said Railway Company which are subject to cancellation by 6 months' notice. It is expected that additional generating equipment will have to be ordered in the near future, due to the presently apparent continuing growth of the communities served. The Company owns 19 substations with a total installed transformer capacity of 199,200 kilovolt-amperes and approximately 159 miles of transmission pole lines, of which approximately 18 miles are operated at 88,000 volts, approximately 123 miles at 66,000 volts, and approximately 18 miles at 33,000 volts. The distribution system includes approximately 2,246 miles of distribution pole lines, together with approximately 28 miles of multiple-duct conduit and 85 miles of cable.

The Company owns a gas generating plant located in the City of San Diego having a rated capacity in excess of 18,000,000 cubic feet per day, and necessary accessories, including 9,000,000 cubic feet of storage holder capacity. The introduction of natural gas in September, 1932, has resulted in placing the generating equipment in this plant on standby service. At Escondido there is a small butane gas plant for standby service only. The Company owns approximately 912 miles of gas transmission and distribution mains.

In the main business area of the City of San Diego, the Company owns a low pressure steam heating system, comprising approximately 2.6 miles of steam mains, and 97 services.

In addition to the above, the Company owns an eight story reinforced concrete office building located in the business district of San Diego, the larger portion of which is occupied by its own offices.

The transmission and distribution facilities of the Company are located (a) on streets and public highways in respect of which the Company has constitutional and/or granted franchises; (b) on lands of the United States under permits, licenses or easements; and (c) on privately owned lands under rights of way. The Company, being a public utility, has, under the laws of the State of California, the right of eminent domain.

Whenever statements are made under the caption "Property" with respect to the ownership of property or interests in property by the Company, such statements disregard the effect upon titles to property and interests in property of the Trust Indenture securing outstanding bonds, current tax and assessment liens, rights of way, contracts, easements, certain reservations and restrictions, and other encumbrances.

## FRANCHISES AND CONCESSIONS

The Company distributes gas and electricity under franchises acquired either through grant by the State of California (hereinafter called "constitutional franchises") or through grants by municipalities or counties (hereinafter called "granted franchises"). In addition the Company also distributes steam under granted franchises.

### *Constitutional Franchises*

Constitutional franchises were acquired through the acceptance by the Company or its predecessors of the offer contained in Section 19 of Article XI of the Constitution of the State of California, until it was amended on October 10, 1911. This section in substance authorized the installation and maintenance of pipes and conduits for introducing into and supplying a city and its inhabitants "either with gas light or other illuminating light." In the opinion of counsel for the Company, these franchises are perpetual and extend through the whole of the municipalities where acquired and do not require any annual or other payments to the municipalities. The Company operates under constitutional franchises for the transmission and distribution of gas and electricity in the Cities of San Diego, Coronado, Escondido and National City, and of electricity in the City of Oceanside.

### *Granted Franchises*

The granted franchises are in two categories, namely, municipal and county franchises. They have been granted to the Company or its predecessors under the provisions of the Broughton Act, California Statutes 1905, page 777, as amended, or recently under the Franchise Act of 1937, California Statutes 1937, page 1781, and in cases where the Company has constitutional franchises, they complement such franchises, while in cases where the Company has no constitutional franchise, they cover the use of streets and highways for transmission and distribution of gas and electricity for light, heat and power. The Broughton Act and the Franchise Act of 1937 each require the payment to the grantor of the franchise of 2% of the annual gross receipts derived from the use, operation or possession of the franchise, and with respect to the Franchise Act of 1937 there are provisions for the payment of minimum amounts in certain cases. The Company holds granted franchises for the transmission and distribution of gas and electricity in the cities of San Diego, Coronado, Oceanside, National City, Escondido, Chula Vista, La Mesa and El Cajon and for steam in small portions of the City of San Diego, and also granted franchises for the transmission and distribution of gas and electricity in San Diego County, and of electricity in certain portions of Orange County.

The franchise granted under the Broughton Act by Ordinance No. 8183 of the City of San Diego for the term expiring in 1970, for the transmission and distribution of gas and electricity for heat and power purposes, as originally granted contained the provisions (among others) that in computing the rental or charge payable thereunder to said city, the gross receipts derived from the sale of electricity for street railway purposes should be excluded, and also contained the provision that, so long as the charter of said city required, the franchise would be subject to repeal, change or modification by the majority of the electors of said city. In 1931, by the adoption by the electors of said city of People's Ordinance No. 13392-B, the city purported to amend said franchise so as to provide that in computing the rental or charge payable thereunder, gross receipts derived from the sale of electricity for street railway purposes shall be included, and further purported to amend said franchise so as to retain throughout the life thereof the right of a majority of the electors of said city voting at any election at any time thereafter to repeal, change or modify the same. The validity of People's Ordinance No. 13392-B has not been adjudicated and the Company has disputed the power of said city to repeal, change or modify said franchise. The City of San Diego and the Company entered into an agreement dated November 10, 1936, to which both have since been conforming, in order to determine the amount to which the City is entitled under the franchise granted under Ordinance No. 8183. The agreement which is for the period of the franchise, namely, until 1970, provides that the City's 2% share of gross receipts from the sale of energy for heat and power purposes includes, generally, all sales for consumption within the corporate limits of San Diego of gas or electricity, except (1) the first 35 kw/hr of electric energy passing through the meter of each domestic and residential lighting consumer in any month (this amount being attributed to lighting) and (2) any electric energy sold to the street railway and which the street railway receives at the point of generation. The 35 kw/hr provision was made subject to a readjustment by arbitration at the request of either party once in every 3 years, in the event that such party should be of the belief that this provision attributed too much or too little energy to lighting.

The Company is advised by its counsel that there are defects in connection with some of the franchises granted by the smaller cities and the franchises for steam granted by the City of San Diego, but both the Company and the grantors have been and are observing and conforming to the provisions thereof, and in the opinion of said counsel, the use by the Company of its property in connection with said franchises is not materially impaired or endangered by reason of such defects or irregularities relating to its granted franchises.

### *Certificates of Public Convenience and Necessity*

The Public Utilities Act of California, which became effective March 23, 1912, requires the obtaining under the circumstances and conditions therein specified of certain so-called certificates of public convenience and necessity from the Railroad Commission of the State of California before beginning the construction of any line, plant or system or the extension thereof, or the exercise of rights under franchises. The Company has applied for and secured from the Railroad Commission of the State of California certificates of public convenience and necessity in such instances where it has deemed the same

to be necessary for the operation of its properties and systems, except that the Company does not have certificates of public convenience and necessity with respect to two franchises recently granted by the City of Oceanside. These franchises recently became effective and the Company proposes to file an application with the Railroad Commission of the State of California for appropriate certificates of public convenience and necessity.

#### *Federal Permits, Licenses and Easements*

The Company is the holder of various permits, licenses and easements granted by different Departments of the United States, most of which are revocable at the option of the grantor and in some instances call for small annual payments. Such permits, licenses and easements permit the use by the Company of public lands for gas and electric distribution and transmission facilities consisting principally of gas mains and electric power lines or cables.

### **DESCRIPTION OF CAPITAL STOCK**

#### **General—all Classes and Series.**

The Articles of Incorporation of the Company will be amended prior to the issuance of the shares offered hereby so as to authorize a total of 2,312,925 shares, consisting of 550,000 shares of Cumulative Preferred Stock, 5% Series, \$20 par value; 200,000 shares of Cumulative Preferred Stock, Series B, \$20 par value; 62,925 shares of Seven Per Cent. Cumulative Preferred Stock, \$100 par value; and 1,500,000 shares of Common Stock, \$10 par value. The Articles of Incorporation as so amended will provide that none of the shares of Seven Per Cent. Cumulative Preferred Stock, \$100 par value, redeemed or otherwise acquired by the Company shall ever again be issued but all such shares shall cease from the date of such redemption or other acquisition to be a part of the authorized shares of the Company. (At the date of this Prospectus the authorized capital stock consisted of 62,925 shares of Seven Per Cent. Cumulative Preferred Stock, \$100 par value; 87,075 shares of Six Per Cent. Cumulative Preferred Stock, \$100 par value; and 150,000 shares of Common Stock, \$100 par value.)

The following statements under this caption "Description of Capital Stock" are brief summaries of certain of the provisions to be contained in the Articles of Incorporation, when amended, with respect to the different classes and series of stock. A copy of the Articles of Incorporation, as amended, and a copy of the amendment thereto, which will be in effect prior to the issuance of the shares offered hereby, are filed as Exhibits to the Registration Statement. The following summaries do not purport to be complete and reference is made to said Exhibits which are hereby incorporated herein by reference for a full and complete statement of such provisions.

No class or series of stock of the Company has any preemptive, subscription or conversion rights and none of said classes or series is assessable.

There is no distinction as to priority of the right to dividends or as to priority as to the right to participate in assets upon liquidation, dissolution or winding up between the preferred stocks or any series thereof.

Each shareholder shall be entitled to one vote on all questions for each \$10 par value of stock held, and on any question as to which it is at the time provided by law that action may be taken on approval by vote of a specified percentage of the outstanding shares, the vote of stockholders holding such specified percentage of the voting power shall also be required.

I. If and whenever dividends accrued and unpaid on the outstanding Cumulative Preferred Stock or any series thereof equal or exceed an amount equivalent to eight full quarterly dividends, then until all dividends in default shall have been paid or declared and set aside, the holders of the Cumulative Preferred Stock (provided no shares of the Seven Per Cent. Cumulative Preferred Stock, authorized on September 1, 1940, be at the time outstanding) voting separately as one class, shall be entitled to elect the smallest number of directors necessary to constitute a majority of the full Board of Directors, and the holders of the Common Stock shall be entitled to elect the remaining directors. Such special right of the Cumulative Preferred Stock shall cease whenever all unpaid dividends on the Cumulative Preferred Stock shall be paid or set aside, such special right being subject to renewal in the event of further like default or defaults.

II. The consent (given in writing or by vote) of the holders of at least 2/3rds of the aggregate number of shares of Cumulative Preferred Stock then outstanding (subject to the rights, if any, of the holders of such shares of Seven Per Cent. Cumulative Preferred Stock, authorized on September 1, 1940, as may at the time be outstanding) shall be necessary in order to:

(a) Create or authorize any class of stock which shall be entitled to any preference over, or to parity with, Cumulative Preferred Stock; or

(b) Make any change in the provisions relative to the Cumulative Preferred Stock or any series thereof (but fixing of the dividend rate, redemption price, and liquidation preference of shares of Cumulative Preferred Stock, Series B, by the Board of Directors of the Company shall not be deemed to be a change within the meaning of this subdivision (b) ) which would change the express terms or provisions of such stock in any manner prejudicial to the holders thereof, except if such change is prejudicial to the holders of one or more, but not all of such series, the consent of the holders of 2/3rds of the total number of shares then outstanding of the series so affected, shall be required; or

(c) Issue shares of any series of Cumulative Preferred Stock in addition to 314,625 shares of Cumulative Preferred Stock, 5% Series, \$20 par value, or of any other preferred stock ranking on a parity with, or having any preference over, the Cumulative Preferred Stock as to assets or dividends, unless the par value of the Common Stock to be outstanding immediately after such issue (plus, if the Company so elects, its surplus as shown by its books, provided distribution on, or purchase of, the Common Stock out of such surplus, or a part thereof to be included for this purpose, is prohibited while such additional shares are outstanding) shall be at least equal to the par value of its Cumulative Preferred Stock of all series and of any other preferred stock ranking on a parity with, or having any preference over, the Cumulative Preferred Stock, as to assets or dividends, to be outstanding immediately after such issue; or

(d) Issue shares of any series of Cumulative Preferred Stock in addition to 314,625 shares of Cumulative Preferred Stock, 5% Series, \$20 par value, or of any other stock ranking on a parity with, or having any preference over, the Cumulative Preferred Stock as to assets or dividends, unless the net earnings of the Company, available for dividends for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding the issue of such additional stock or the contracting for the issuance and sale thereof, are at least two times the annual dividend requirements on all Cumulative Preferred Stock of all series and on all other stock ranking on a parity with, or having any preference over, the Cumulative Preferred Stock, as to assets or dividends, to be outstanding immediately after such issue; or

(e) Merge with or consolidate into any other corporation or corporations.

No consent of the holders of shares of any series of Cumulative Preferred Stock shall be required for the creation of any class of stock entitled to preference over, or to parity with, such series of the Cumulative Preferred Stock, as to dividends or assets, if the purpose of the creation thereof is, and the proceeds thereof are to be used for, the redemption of all shares of such series of Cumulative Preferred Stock then outstanding.

If the Company has outstanding at any time shares without par value, the references in II hereof to par value shall refer in the case of such shares without par value, to that part of the consideration received for such shares which is established as capital.

III. The consent given in writing by the holders of a majority of the aggregate number of shares of Cumulative Preferred Stock then outstanding or vote of a majority of the total number of shares of Cumulative Preferred Stock at a meeting at which a quorum as hereinafter specified is present or represented (subject to the rights, if any, of the holders of such shares of Seven Per Cent. Cumulative Preferred Stock, authorized on September 1, 1940, as may at the time be outstanding) shall be necessary to effect or validate any issue of any unsecured notes, debentures or any other securities representing unsecured indebtedness, or the assumption of any such unsecured securities for purposes other than (a) for the refunding of outstanding unsecured securities theretofore issued or assumed by the Company, or (b) for the redemption or other retirement of outstanding shares of one or more series of Cumulative Preferred Stock, if, immediately after such issue or assumption the total principal amount of all unsecured notes, debentures or other securities representing unsecured indebtedness issued or assumed by the Company and then outstanding (including the unsecured securities then to

be issued or assumed but excluding unsecured securities theretofore so consented to by the holders of the Cumulative Preferred Stock) would exceed 10% of the aggregate of (i) the total principal amount of all bonds or other securities representing secured indebtedness issued or assumed by the Company and then to be outstanding, and (ii) the capital and surplus of the Company as then to be stated on the books of account of the Company.

For the purpose specified in III hereof, the presence in person or by proxy of the holders of a majority of the total number of shares of the Cumulative Preferred Stock of all series then outstanding shall be necessary to constitute a quorum; provided that if such quorum shall not have been obtained at such meeting or any adjournment thereof, within thirty days from the date of such meeting, as originally called, the presence in person or by proxy of the holders of 1/3rd of the total number of shares of Cumulative Preferred Stock of all series then outstanding shall be sufficient to constitute a quorum for the purpose of III hereof.

Any action requiring the consent of the holders of Cumulative Preferred Stock set forth in II and III hereof may be taken with such affirmative consent or vote, together with such additional vote, if any, of the shareholders, as may from time to time be required by law.

Except when some mandatory provision of law shall be controlling, and except as otherwise provided in II hereof, whenever shares of two or more series of the Cumulative Preferred Stock are outstanding, no particular series of Cumulative Preferred Stock shall be entitled to vote as a separate series on any matter and all shares of Cumulative Preferred Stock shall be deemed to constitute one class for any purpose for which a vote by classes may now or hereafter be required.

#### **Cumulative Preferred Stock, 5% Series, \$20 par value.**

##### *Dividend Rights*

The holders of shares of Cumulative Preferred Stock, 5% Series, \$20 par value, are entitled to receive, when and as declared, out of the surplus or net profits of the Company, cumulative dividends at the rate of 5% of the par value thereof per annum, and no more, payable quarterly, before any dividends shall be declared or set aside for, or paid upon, the Common Stock. Said dividends accrue from date of issuance and are payable quarterly on the fifteenth days of January, April, July, and October.

##### *Voting Rights*

The holders of Cumulative Preferred Stock, 5% Series, \$20 par value, are entitled to two votes per share (one vote for each \$10 par value) and have the voting rights described above under "General—all Classes and Series."

##### *Liquidation Rights*

In case of voluntary liquidation, dissolution or winding up of the Company, the holders of the Cumulative Preferred Stock, 5% Series, \$20 par value, shall be entitled to receive \$25 per share if payment is made on or before October 1, 1943, and \$24 per share if payment is made thereafter, together with any accrued dividends thereon to the date of payment before any payment shall be made to holders of the Common Stock. In the event of involuntary liquidation, dissolution or winding up of the Company the holders of the Cumulative Preferred Stock, 5% Series, \$20 par value, shall be entitled to receive \$20 per share, together with any accrued dividends thereon to date of payment, before any distribution or payment shall be made to the holders of the Common Stock. The holders of the Cumulative Preferred Stock, 5% Series, \$20 par value, have no priority of the right to participate in assets upon liquidation, dissolution or winding up of the Company, over the holders of other preferred stocks of the Company, or any series thereof.

##### *Redemption Provisions*

The Company may redeem at any time upon 30 days' notice of redemption, the whole or any part of the Cumulative Preferred Stock, 5% Series, \$20 par value, at \$25 per share, if redeemed on or before October 1, 1943, and \$24 per share if redeemed thereafter, together with accrued dividends to the date fixed for redemption.

### **Cumulative Preferred Stock, Series B.**

The holders of shares of Cumulative Preferred Stock, Series B, are entitled to receive, when and as declared, out of the surplus or net profits of the Company, dividends at such rate as may be fixed by the Board of Directors prior to the issuance of any shares thereof.

In the case of liquidation, dissolution or winding up of the Company, the holders of Cumulative Preferred Stock, Series B, shall be entitled to receive such amounts as the Board of Directors may determine, prior to the issuance of any shares thereof, but in no event more than \$25 per share in the event of voluntary liquidation, dissolution or winding up, or more than \$20 per share in the event of involuntary liquidation, dissolution or winding up, in each case plus the amount of unpaid accrued dividends thereon. The Company may redeem at any time the whole or any part of the Cumulative Preferred Stock, Series B, on thirty days' previous notice, at such redemption price as the Board of Directors may determine, prior to the issuance of any shares thereof, not to exceed, however, \$25 per share plus unpaid accrued dividends thereon.

### **Seven Per Cent. Cumulative Preferred Stock.**

All outstanding shares of this class are to be retired as stated under the caption "Purpose of Issue," and the Articles of Incorporation, when amended as above stated, will provide that none of said shares may be reissued.

The holders of the shares of Seven Per Cent. Cumulative Preferred Stock are entitled to receive, when and as declared, out of the surplus or net profits of the Company, cumulative dividends at 7% per annum, payable quarterly. The Seven Per Cent. Cumulative Preferred Stock is subject to redemption at any time at \$115 per share plus accrued dividends, upon sixty (60) days' notice. In case of liquidation, dissolution or winding up of the Company the holders of Seven Per Cent. Cumulative Preferred Stock shall be entitled to be paid in full the par amount of their shares and all accrued and unpaid dividends thereon before any amount shall be paid to holders of Common Stock.

### **Common Stock.**

The holders of Common Stock are entitled to receive dividends, as and when declared by the Board of Directors, after all cumulative and accrued dividends have been declared and paid or set aside for all outstanding preferred stocks of the Company. Upon liquidation, dissolution or winding up of the Company the holders of Common Stock shall be entitled to receive all assets of the Company remaining after payment to holders of all preferred stocks of the full preferential amounts to which holders of such preferred stocks are entitled.

## **PROPOSED ISSUANCE OF BONDS**

Under date of August 16, 1940, the Company entered into a contract (a copy of which is on file as an exhibit to the Registration Statement) with The Equitable Life Assurance Society of the United States (hereinafter called "Equitable") whereby the Company agreed to sell and Equitable agreed to purchase, subject to the terms and conditions hereinafter referred to, \$16,000,000 principal amount of First Mortgage Bonds, 3 $\frac{3}{8}$ % Series due July 1, 1970 (hereinafter called the "Bonds") to be issued under and secured by a Mortgage and Deed of Trust from the Company to The Bank of California, National Association, as trustee, as therein provided, at the price of 107.38% of the principal amount plus accrued interest from July 1, 1940 to date of delivery, on such date on or after September 15, 1940, and on or before October 15, 1940, as the Company shall designate by 3 days' notice in writing.

The Company agreed to take all corporate and other action necessary to provide for the redemption, on or before November 20, 1940, of \$15,500,000 principal amount, being all of its presently outstanding First Mortgage Bonds, 4% Series due 1965, and to procure a release of the lien securing the same, not later than November 15, 1940. The redemption price of said First Mortgage Bonds, 4% Series due 1965, if redeemed on or before November 15, 1940, will be 107% of the principal amount thereof plus accrued interest thereon to the date of redemption. The Company made certain representations and warranties in this agreement relating, among other things, to its properties, the lien of the Mortgage thereon, financial statements, history and descriptions of its business, suits or governmental proceedings against the Company, and further war-

ranted that between June 30, 1940, and prior to the delivery date for the Bonds, the business and properties of the Company will not be adversely affected in any way as a result of any fire, explosion, earthquake, accident, strike, lockout, combination of workmen, flood, drought, embargo, war to which the United States of America is a party, or act of God or public enemy. The obligation of Equitable to purchase and pay for these Bonds was made subject, among other things, to the receipt by it of favorable opinions from counsel as to all legal matters relating to the transaction. If the Company is unable to deliver the Bonds or to comply with all the terms and provisions of the contract after using its best efforts to do so, for reasons beyond its control or for reasons the elimination of which would involve undue burden upon the Company, or Equitable is unwilling to purchase the Bonds by reason of the failure of the Company to comply with the obligations and terms and conditions of the agreement, the agreement may be cancelled, and thereupon the Company is obligated to reimburse Equitable for any out-of-pocket expenses and to pay the fees and expenses of Equitable's special counsel in connection with the proposed transaction.

#### PURPOSE OF ISSUE

All shares of the Company's Seven Per Cent. Cumulative Preferred Stock exchanged pursuant to the Offer of Exchange described under the caption "Offers" will be retired by the Company. The net proceeds to be received by the Company in the event of the consummation of the sale of the shares of the Cumulative Preferred Stock, 5% Series, \$20 par value, with respect to which acceptances of the Offer of Exchange are not received by the Company as explained under the caption "Terms of Offering," together with other funds of the Company, will be used for the purpose of redeeming all of said Seven Per Cent. Cumulative Preferred Stock not exchanged pursuant to the Offer of Exchange, at \$115 per share plus accrued dividends to the date of redemption.

The estimated amount of net proceeds to the Company from the Cumulative Preferred Stock, 5% Series, \$20 par value, before deducting expenses in the estimated amount of \$40,000, is set forth on the cover of this Prospectus.

#### UNDERWRITERS

No firm commitment to take the issue has been made. The shares offered hereby will be initially offered by the Company to the holders of its Seven Per Cent. Cumulative Preferred Stock pursuant to the Offer of Exchange. If the Company receives acceptances with respect to at least 157,310 shares pursuant to the Offer of Exchange, then the several Underwriters named below are obligated, subject to the terms and conditions of their agreement with the Company referred to under the caption "Terms of Offering," to purchase from the Company all of the shares offered hereby with respect to which acceptances are not received by the Company pursuant to the Offer of Exchange. The Offer of Exchange is made subject to the express condition that the Company shall sell all of the shares offered hereby, with respect to which acceptances are not received by it pursuant thereto, prior to the time specified in the Offer of Exchange.

With respect to the offering of the 314,625 shares offered hereby by the Company to the holders of its Seven Per Cent. Cumulative Preferred Stock pursuant to the Offer of Exchange, but only as to such number of shares thereof as may be taken pursuant to such Offer of Exchange, the principal Underwriter is Blyth & Co., Inc., 215 West Sixth Street, Los Angeles, California.

With respect to 157,315 of the shares offered hereby, which may be purchased by the several Underwriters as provided in the Underwriting Agreement, the principal Underwriters, their respective addresses and the respective amounts underwritten by them are as follows:

Name	Address	Number of Shares
Blyth & Co., Inc.	215 West Sixth Street Los Angeles, Calif.	53,315
Dean Witter & Co.	45 Montgomery Street San Francisco, Calif.	28,000
William R. Staats Co.	640 South Spring Street Los Angeles, Calif.	11,000
Weeden & Co.	315 Montgomery Street San Francisco, Calif.	8,000



Elworthy & Co.	111 Sutter Street San Francisco, Calif.	6,000
Mitchum, Tully & Co.	405 Montgomery Street San Francisco, Calif.	6,000
Schwabacher & Co.	600 Market Street San Francisco, Calif.	6,000
Banks, Huntley & Co.	634 South Spring Street Los Angeles, Calif.	5,500
Pacific Company of California	623 South Hope Street Los Angeles, Calif.	5,500
E. H. Rollins & Sons Incorporated	1900 Russ Building San Francisco, Calif.	5,000
Bankamerica Company	485 California Street San Francisco, Calif.	5,000
O'Melveny-Wagenseller & Durst	626 South Spring Street Los Angeles, Calif.	5,000
Brush, Slocumb & Co.	111 Sutter Street San Francisco, Calif.	4,000
Hills, Richards & Co.	621 South Spring Street Los Angeles, Calif.	4,000
Page, Hubbard & Asche	210 West 7th Street Los Angeles, Calif.	3,000
Davis, Skaggs & Co.	211 Montgomery Street San Francisco, Calif.	2,000
		157,315

The amounts of the shares to be purchased by the respective Underwriters may change in the manner referred to under the caption "Terms of Offering."

None of the above named Underwriters, through one or more intermediaries, directly or indirectly, controls, or is controlled by, or is under common control with, the Company.

#### TERMS OF OFFERING

The Cumulative Preferred Stock, 5% Series, \$20 par value (hereinafter under this caption called the "New Stock") is being initially offered by the Company to holders of its Seven Per Cent. Cumulative Preferred Stock, \$100 par value (hereinafter under this caption sometimes called the "7% Preferred Stock") pursuant to the Offer of Exchange.

After the expiration of the Offer of Exchange, the several Underwriters intend, if acceptances are received by the Company with respect to at least 157,310 shares of New Stock, to offer to the public all New Stock offered hereby with respect to which acceptances are not received by the Company pursuant to the Offer of Exchange. Such offer to the public is intended to be made originally at the public offering price of \$23 per share (exclusive of accrued dividends) for delivery when, as and if issued and accepted by the several Underwriters, and subject to the approval of legal proceedings by counsel and subject to prior sale, withdrawal, cancellation or modification of the offer without notice. The Underwriters reserve the right to reject any order for the purchase of New Stock.

By an agreement dated September 25, 1940, between the Company and Blyth & Co., Inc., acting on behalf of itself and the other several Underwriters (herein called the "Underwriting Agreement"), the Company agrees to make a conditional Offer of Exchange of the 314,625 shares offered hereby to the holders of its 7% Preferred Stock, \$100 par value and, if acceptances are received with respect to at least 157,310 shares of the New Stock pursuant to the Offer of Exchange, to sell to the several Underwriters all of the shares of New Stock with respect to which acceptances are not so received.

The Underwriting Agreement, among other things, provides:

That Blyth & Co., Inc., the underwriter with respect to the offering made by the Company in the Offer of Exchange, acting on its own behalf and not as representative of the other several Underwriters named above under the caption "Underwriters," agrees to assist the Company in obtaining acceptances of the Offer of Exchange, and to arrange

for the services of Selected Dealers in obtaining acceptances of the Offer of Exchange. As compensation for its services, the Company agrees to pay to Blyth & Co., Inc. the sum of \$19,663.75 plus an additional amount computed on one or the other of the following bases: (i) in the event the exchange of New Stock pursuant to the Offer of Exchange is consummated, an amount equal to 15c per share of New Stock with respect to which any member of the National Association of Securities Dealers, Inc. shall have been instrumental in obtaining acceptances of the Offer of Exchange, as evidenced by having its name on the Letter of Acceptance of the Offer of Exchange, or (ii) in the event the exchange of New Stock pursuant to the Offer of Exchange is not consummated, an amount equal to 5c per share of New Stock with respect to which acceptances of the Offer of Exchange have been received within the time therein specified, which any member of the National Association of Securities Dealers, Inc. has been instrumental in obtaining, as evidenced by having its name on the Letter of Acceptance of the Offer of Exchange. Blyth & Co., Inc., for its own account, may pay commissions to members of the National Association of Securities Dealers, Inc., including any of the several Underwriters named above.

That if acceptances are received by the Company with respect to at least 157,310 shares of New Stock pursuant to the Offer of Exchange, the Company agrees to sell and the Underwriters named above severally agree to purchase at \$23 per share, subject to certain terms and conditions, all of the shares of New Stock with respect to which acceptances shall not have been so received. The Company in such event agrees to pay to the several Underwriters, as an underwriting fee, the sum of \$31,463 and, in addition, to pay to the several Underwriters a commission of 15c per share for each share of New Stock actually taken up and paid for by them if the amount of New Stock taken up and paid for does not exceed 45,000 shares; a commission of 30c per share for each share of New Stock actually taken up and paid for by them if the amount of New Stock taken up and paid for exceeds 45,000 shares but does not exceed 80,000 shares; and a commission of 40c per share for each share of New Stock actually taken up and paid for by them if the amount of New Stock taken up and paid for exceeds 80,000 shares. The obligation of each Underwriter to purchase New Stock shall not exceed the number of shares set forth above opposite the name of such Underwriter, and, if the aggregate amount of New Stock to be purchased by the several Underwriters be less than 157,315 shares, the obligation of each Underwriter to purchase New Stock shall be limited to and shall be in the same ratio to the number of shares set opposite the name of such Underwriter as the total amount of such New Stock to be purchased is to 157,315.

That Blyth & Co., Inc., as representative of the several Underwriters, will determine whether a public offering of the New Stock to be purchased by the several Underwriters will be made under the terms of an agreement between the several Underwriters. Such an offering, if made, will be made either (i) exclusively by the several Underwriters, or (ii) in part by one or more of the several Underwriters and in part by certain Selected Dealers to whom New Stock may be sold.

That delivery of the New Stock to be purchased by the several Underwriters is to be made to them and payment therefor is to be made on October 8, 1940, or such other time as may be agreed upon by the Company and Blyth & Co., Inc., as representative of the several Underwriters.

That the obligations of the several Underwriters to purchase the New Stock at the time stated therein as the Closing Date are subject to certain conditions precedent, including: That the Registration Statement shall have become effective not later than September 28, 1940, and shall be and remain effective to the Closing Date; that on or prior to September 27, 1940, the Company shall have received an order from the Railroad Commission of the State of California, in form satisfactory to counsel for the Underwriters, granting authority sufficient to enable the Company to issue and sell the New Stock in the manner and for the consideration provided for in the Underwriting Agreement and such other approvals, orders, permits or consents, if any, as may be required from any other public authorities, in form satisfactory to counsel for the Underwriters, and such orders, approvals, permits or consents shall not have been revoked, suspended, or amended without the written consent of the Underwriters, prior to the Closing Date; that before the Closing Date there shall have been delivered to the several Underwriters certain favorable legal opinions of counsel for the Company and of counsel for the several Underwriters; that the Offer of Exchange shall have expired not later than the close of business, October 3, 1940; that no amendments to the Registration Statement or the Prospectus shall have been filed prior to the Closing Date which have not

been submitted to Blyth & Co., Inc. or to which it or its counsel shall have made objection, and that the required copies of the final Prospectus shall have been delivered to the several Underwriters to enable them to proceed with an offering of the New Stock not later than October 4, 1940; that there shall have been no substantial loss of or damage to the properties of the Company as a result of fire, flood, earthquake or other casualty and there shall have been no substantial adverse change in the condition of the Company from that set forth in the Registration Statement; that trading in securities on the New York Stock Exchange shall not have been suspended nor shall minimum prices have been established on the New York Stock Exchange prior to the Closing Date by reason of armed conflict at home or abroad or threat thereof; or that prior to the Closing Date a state of war, as defined, shall not exist between the United States and any other nation. Until the Closing Date, if any of the conditions precedent set forth above have not been fulfilled, Blyth & Co., Inc. alone or Underwriters whose obligations are to purchase at least 50% of the aggregate amount of New Stock to be purchased by the several Underwriters may terminate the Underwriting Agreement without liability on the part of any of the Underwriters to the Company.

That if any Underwriter shall repudiate its obligation to purchase the New Stock which it has agreed to purchase, the remaining Underwriters shall have the right to purchase such New Stock or, with the consent of the Company, to substitute a new Underwriter or Underwriters satisfactory to the Company, and that in case the remaining Underwriters shall not purchase such New Stock or substitute another Underwriter or Underwriters, neither the Company nor the remaining Underwriters shall be under any obligation under the Underwriting Agreement.

The Underwriting Agreement contains representations and warranties by the Company to Blyth & Co., Inc., as representative of the several Underwriters, that the Registration Statement, as amended, when it becomes effective and at the time of delivery and payment for the New Stock, including the Prospectus, as amended, will fully comply with the provisions of the Securities Act of 1933 and the rules and regulations of the Securities and Exchange Commission, and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, except that this representation and warranty shall not apply to statements or omissions made in the Prospectus relating to stabilization of the market price of the New Stock, or made in the Registration Statement or Prospectus in reliance, upon and in conformity with, information furnished to the Company in writing by any Underwriter expressly for use in the answers to Items 22, 25, 34, 35 or 43 of the Registration Statement and further, that the Company will indemnify Blyth & Co., Inc., and each Underwriter against losses, claims, damages or liabilities of the kind, to the extent, and under the conditions described therein, and that each of the several Underwriters will indemnify the Company against losses, claims, damages or liabilities of the kind, to the extent, and under the conditions described in the Underwriting Agreement.

By an Agreement Between Underwriters dated September 25, 1940, Blyth & Co., Inc., as the principal Underwriter of the shares of New Stock with respect to which the Company receives acceptances pursuant to the Offer of Exchange, has agreed that, acting on its own behalf and for its own account, it will pay to certain dealers to be selected by it a commission of not to exceed 15c per share of New Stock exchanged pursuant to the Offer of Exchange or 5c per share of New Stock if the exchange is not consummated, with respect to which such dealers have been instrumental in obtaining acceptances of the Offer of Exchange, but Blyth & Co., Inc. reserves the right to require evidence satisfactory to it of the entitlement of any such dealer to receive such commission.

After the expiration of the Offer of Exchange, if the Company receives acceptances with respect to at least 157,310 shares of New Stock, pursuant to the Offer of Exchange, the several Underwriters intend to offer to the public the New Stock with respect to which acceptances were not so received by the Company, such offer to the public to be made at not in excess of \$23 per share (exclusive of accrued dividends) less, in some instances, certain concessions and discounts, all set forth below, for delivery when, as and if issued and accepted by the Underwriters and subject to prior sale, withdrawal, cancellation or modification of the offer without notice.

By the Agreement Between Underwriters, mentioned above, each of the several Underwriters has named Blyth & Co., Inc. as its representative and has authorized Blyth & Co., Inc. in its discretion to determine whether a public offering shall be made under the terms of that Agreement Between Underwriters of the New Stock to be purchased by them. Such public offering made under the terms of that Agreement Between Underwriters, if made, will be made either (i) exclusively by the several Underwriters or

(ii) in part by one or more of the several Underwriters and in part by certain dealers (referred to as "Selected Dealers") to whom the New Stock may be sold.

The Agreement Between Underwriters provides that sales of the New Stock may be made to Selected Dealers at the public offering price less a concession not in excess of 40c per share; that the several Underwriters agree that, with respect to the New Stock purchased by them and not sold to Selected Dealers, they will not make sales, except through Blyth & Co., Inc., as representative of the several Underwriters, at a price below the public offering price or allow any discount or concession therefrom, except that, for their own respective accounts, they may allow a discount of not in excess of 12½c per share to members of the National Association of Securities Dealers, Inc.

The Agreement Between Underwriters authorizes Blyth & Co., Inc., as representative of and for the respective accounts of the several Underwriters, to buy New Stock at not in excess of the public offering price, and to sell New Stock at such prices and on such terms as it may deem desirable, in the open market or otherwise, on a when-issued basis or otherwise, either for long or short account, and to over-allot in arranging for sales to Selected Dealers; thereafter to close out the account authorized thereby, by making purchases to cover any short account or by making sales to the extent of any long account, in either case at such prices as may be deemed desirable. The Agreement Between Underwriters provides that the commitment of an Underwriter in such purchases and sales shall not, either for long or short account, exceed 10 per cent., computed as set forth in the Agreement Between Underwriters, of the amount of New Stock which such Underwriter has agreed to purchase. The object of this provision is to enable Blyth & Co., Inc., as representative of the several Underwriters, to facilitate the distribution of the New Stock by effecting transactions within the limits and in the manner described in the Agreement Between Underwriters for the purpose of stabilizing the market price of the New Stock, but the existence of this provision is no assurance that the price of the New Stock will be stabilized, or that stabilizing, if commenced, may not be discontinued at any time.

The agreement with Selected Dealers, if New Stock is sold to them by the several Underwriters, will contain provisions similar to those referred to above with respect to making sales at any price other than the offering price.

#### LEGALITY

The legality of the securities offered hereby will be passed upon by A. Louis Flynn, Esq., 231 South La Salle Street, Chicago, Illinois, and Messrs. Chickering & Gregory, 111 Sutter Street, San Francisco, California, counsel for the Company, and Messrs. O'Melveny & Myers, 433 South Spring Street, Los Angeles, counsel for the Underwriters. The legal opinion of Mr. Flynn will recite that he is a member of the Illinois Bar and does not hold himself out as an expert on the laws of the State of California, but that he has made a study of the laws of said State insofar as such laws are involved in the conclusions expressed by him.

#### MANAGEMENT AND CONTROL

The names and addresses of the directors and principal executive officers are:

Name	Address	Office
J. A. Cannon	Electric Building, San Diego, Calif.	Secretary
Allen L. Chickering†	111 Sutter Street, San Francisco, Calif.	Director, Vice-President and Assistant Secretary
M. B. Fowler	Electric Building, San Diego, Calif.	Director, Vice-President and Treasurer
A. E. Holloway	Electric Building, San Diego, Calif.	Director and Vice-President in Charge of Sales
L. M. Klauber	Electric Building, San Diego, Calif.	Director and Vice-President in Charge of Operations
Bernard W. Lynch*	231 South La Salle Street, Chicago, Ill.	Director
M. A. Morrison	231 South La Salle Street, Chicago, Ill.	Vice-President
H. R. Peckham	Electric Building, San Diego, Calif.	Director
W. F. Raber	Electric Building, San Diego, Calif.	Director, President and General Manager

†Member of firm of Chickering & Gregory, Counsel for the Company.

\*Mr. Lynch has filed an application with the Federal Power Commission for permission to act as a director of the Company and pending the Commission's decision on said application has not participated in or voted at Directors' meetings.

All persons or companies regarded by the Company, upon the basis of information available to it, as parents, are Standard Power and Light Corporation, whose address is 15 Exchange Place, Jersey City, New Jersey, and Standard Gas and Electric Company, whose address is 420 Lexington Avenue, New York, N. Y. Standard Gas and Electric Company owns 99,387 shares of the Common Stock of the Company, of the par value of \$100 per share, being 99.07% of the outstanding Common Stock and 60.88% of the total voting power.

A Plan of Standard Gas and Electric Company (hereinafter sometimes referred to as "Standard") for the divestment of its control of the Company, has been filed with the Securities and Exchange Commission as a part of a plan for integration of the system of Standard in compliance with the provisions of Section 11(b)(1) of the Public Utility Holding Company Act of 1935, and on August 22, 1940, the Commission issued its findings, report and order with respect thereto.

Under the Plan, on August 26, 1940, Standard offered to each holder of its Notes and Debentures, of which an aggregate principal amount of \$70,523,900 was then outstanding, the right of exchanging each \$1000 principal amount of such Notes and Debentures for 58 shares of Common Stock of the Company, of the par value of \$10 each. Provision was also made for exchanges of holdings of less than \$1000 principal amount of Notes or Debentures upon the same proportionate basis but without adjustment for fractional shares. The total amount of Common Stock of the Company so offered, subject to the reclassification thereof as hereinafter mentioned, was 993,870 shares, of the par value of \$10 each, constituting 99.07% of the outstanding stock of that class and 60.88% of all outstanding stock of the Company.

By its terms, the Plan will become effective when each share of the Common Stock of the Company, of the par value of \$100 each, has been reclassified into 10 shares of the par value of \$10 each and the holders of at least \$14,321,500 principal amount of Notes and Debentures of Standard shall have deposited their Notes and Debentures with the depositaries named in the Plan; but Standard may at its election declare the Plan effective when \$8,567,750 principal amount of Notes and Debentures shall have been so deposited for exchange. The offer of exchange will expire when \$17,135,500 principal amount of Notes and Debentures have been deposited with the depositaries named in the Plan or on September 30, 1940 (which date may be extended from time to time at the option of Standard, upon approval of such extension by the Securities and Exchange Commission, by notice given to the depositaries), whichever is earlier.

If the Plan shall become effective and the holdings of Standard in the Company shall not thereby be reduced to less than 10% of the voting securities thereof, Standard has agreed to promptly file a supplement to the Plan providing for the disposal of additional shares of stock of the Company in an amount sufficient to reduce its holdings therein to less than 10% of the voting securities of the Company. Any remaining shares of Common Stock of the Company owned by Standard are, in accordance with the Plan, to be disposed of as expeditiously as conditions permit. (A copy of the Plan mailed by Standard to holders of its Notes and Debentures, the letter accompanying said Plan and the findings, report and order of the Securities and Exchange Commission issued August 22, 1940, are on file as an Exhibit to the Registration Statement.)

The authorized Board of Directors of Standard consists of nine members who are elected by the holders of its securities as follows: one director by the registered holders of the Notes and Debentures, voting as a class; two directors by the holders of the Prior Preference Stock, voting as a class; two directors by the holders of the \$4 Cumulative Preferred Stock, voting as a class; and four directors by the holders of the Common Stock, voting as a class. For all other purposes each share of the Prior Preference Stock, \$4 Cumulative Preferred Stock and Common Stock is entitled to one vote. The Company is advised that Standard Power and Light Corporation owns 53.64% of the shares of Common Stock, 8.70% of the shares of Prior Preference Stock; and 1.26% of the aggregate principal amount of Notes and Debentures of Standard outstanding as of August 30, 1940. Such shares of Common Stock and Prior Preference Stock of Standard owned by Standard Power and Light Corporation represent 35.44% of the voting power with respect to all matters submitted to a vote of stockholders of Standard pursuant to its by-laws, other than the election of directors, and except as otherwise provided by law.

NOTE: The Securities and Exchange Commission, by notice and order of June 7, 1940, has instituted proceedings under Section 2(a)(7)(B) of the Public Utility Holding Company Act of 1935 in the Matter of Blair & Co., Inc., Schroder, Rockefeller & Co., Incorporated, Emanuel & Co., A. C. Allyn and Company, Incorporated, W. C. Langley & Co., Granbery, Marache & Lord, Jointly and Severally, Respondents, File No 60-15, to determine whether the above named respondents or any one or more of them, directly or indirectly, exercise (either alone or pursuant to an arrangement or understanding with one or more other persons) such a controlling influence over the management or policies of the Standard Power and Light Corporation as to make it necessary or appropriate in the public interest or for the protection of investors or consumers that any one or more of them be subject to the obligations, duties, and liabilities imposed in said Act upon holding companies, which proceedings are still pending. While it is possible these proceedings may raise some doubt as to whether or not the Company is indirectly controlled by the above named respondents, the Company is not aware of the existence or exercise of such control and disclaims any admission that such control exists or that the above named respondents or any of them are a parent of the Company

Public Utility Engineering and Service Corporation is an affiliate of the Company, rendering certain operating and engineering services to the Company pursuant to an oral arrangement, and the Company makes payment for such services on the following basis:

(1) for operating services, charges are based on the cost to Public Utility Engineering and Service Corporation of rendering such services, distributed on a weighted gross earnings basis, and

(2) for engineering services, charges are rendered on a cost basis (being such amount of actual disbursements in respect thereto, plus such of the general expenses of Public Utility Engineering and Service Corporation, as in its determination are allocable to any particular project) to Public Utility Engineering and Service Corporation on projects on which Public Utility Engineering and Service Corporation renders engineering services.

Standard Gas and Electric Company owns all of the outstanding stock of the Service Corporation.

Under date of September 21, 1921, the Company entered into two contracts with Public Utility Engineering and Service Corporation, then known as Byllesby Engineering and Management Corporation, both of which contracts have stated expiration dates of August 31, 1942. Although neither of these agreements has been formally terminated, the parties are not actually acting under the agreements, but in the manner hereinbefore outlined, pursuant to the order referred to below and rules and regulations of the Securities and Exchange Commission.

One agreement provided that the Public Utility Engineering and Service Corporation would furnish certain operating and management services to the Company, and any corporations controlled by the Company, and the Company agreed to pay therefor an amount equal to 2½% of the annual gross revenues of the Company, and any corporations controlled by the Company and served under this agreement. Under the terms of the agreement, the Company was also obligated to reimburse all travelling and incidental expenses in connection therewith.

The other agreement provided that the Public Utility Engineering and Service Corporation would furnish to the Company general engineering service, and the Company agreed to pay therefor an amount equal to 7½% of the total cost to the Company and to any corporations controlled by the Company and served thereunder, of all extensions, additions and improvements during the life of the agreement of and to the property and system of the Company and of such corporations, and in case of the construction and installation of a hydro-electric plant or plants by the Company or such corporations, the Company agreed to pay such reasonable amount, to be not less than 7½% of the total costs of such plants, as might be agreed upon between the Company and the Public Utility Engineering and Service Corporation. Under the terms of the agreement the Company was also obligated to reimburse all travelling and incidental expenses in connection therewith.

Public Utility Engineering and Service Corporation is authorized to act as a subsidiary service company under Section 13 of the Public Utility Holding Company Act of 1935 by virtue of an order of the Securities and Exchange Commission dated May 27, 1939. Section 13 of said Act authorizes the Securities and Exchange Commission to issue rules, regulations and orders requiring that contracts for services be performed economically and efficiently for the benefit of the associate companies at cost, fairly and equitably allocated among such companies. At the present time Public Utility Engineering and Service Corporation is rendering certain operating and engineering services to the Company, when requested by the Company, under general Rules and Regulations of the Securities and Exchange Commission, in accordance with the provisions of such order.

New contracts between the Company and Public Utility Engineering and Service Corporation are in contemplation.

## GOVERNMENT PROJECTS AND BUSINESS COMPETITION

Various Government projects proposed, under construction or completed may in the future have some effect on the business of the Company. Among these projects are

### (a) Boulder Dam Project:

The project involving the construction of Boulder Dam and the impounding of Lake Mead, on the Colorado River between Clark County, Nevada, and Mojave County, Arizona, is now complete and in operation except that all the electric generators planned have not yet been installed. The Company understands that this project's power is being absorbed in an orderly manner by the Bureau of Power and Light of the City of Los Angeles, the Metropolitan Water District of California, the Southern California Edison Company, Ltd., The Nevada-California Electric Corporation and certain other allottees and permittees in accordance with a schedule originally agreed upon between the United States Government and the contracting allottees. While the Company is not a direct permittee or allottee by contract, some of the power purchased by the Company under its contract with Southern California Edison Company, Ltd., may have its source at Boulder Dam.

### (b) All-American Canal:

In Imperial County, California, a project known as the All-American Canal is now being constructed under contract between the Imperial Irrigation District and the United States Government. It is expected that the Canal will commence service about January 1, 1941. Two hydro-electric plants are now being constructed as a part of the Canal development. It is understood that these plants are of a capacity of 14,400 kilowatts, the nearest of which is located approximately 125 miles from the City of San Diego, and that it is contemplated that additional plants along the Canal will eventually bring the capacity to 43,360 kilowatts. The plants now in course of installation are being constructed for the use of the Imperial Irrigation District. The territory of this District has been previously served by The Nevada-California Electric Corporation. It is expected that the hydro-electric works of the All-American Canal will produce more electric energy than can be utilized in the Imperial Valley so that a market will probably be sought elsewhere. The nearest large center of population is the City of San Diego.

As the City of San Diego has certain water rights in the Colorado River, of which, at some future date, it may need to avail itself for its local water requirements, the City has entered into a contract with the United States Government under which it participates in the operating expenses and the amortization of the All-American Canal. To the extent that water owned by the City of San Diego would flow through the hydro-electric plants on the Canal, the City may have certain rights to the power developed thereby, which it is presently believed will be less than 2% of the total capacity of the canal-flow plants.

### (c) Parker Dam:

The Bureau of Reclamation has lately contracted for the installation of electric generators of an aggregate capacity of 90,000 kilowatts at Parker Dam, located on the Colorado River below Boulder Dam, approximately 210 miles from the City of San Diego, which the Company believes may be ready for operation in 1941, and that an additional installation of 30,000 kilowatts may be provided at a later date. The Company is informed that the output of this plant has already been allotted, in major part, to utilities, and irrigation and water districts, in Arizona and southeastern California.

### (d) Rural Electrification Administration:

Southeast of the territory served by the Company, in an area which consists principally of mountain districts closely adjacent to the Mexican border and sparsely populated, the Mountain Empire Electric Cooperative, Incorporated, in cooperation with the Rural Electrification Administration of the Federal Government, has constructed a 12,000 volt distribution line which the Company believes to be approximately 69 miles in length, has cost approximately \$110,000, and serves approximately 285 customers. The Cooperative purchases its electric energy from the Company under a contract running until April 1, 1945. The Company is informed that the Rural Electrification Administration is also giving consideration to another area, primarily recreational in nature, eastward of the territory now being served by the Company.

## MUNICIPAL AND GOVERNMENT OWNERSHIP

Under the Constitution and Statutes of the State of California, municipal corporations and other public agencies have been authorized to engage in certain public utility activities, and may acquire properties necessary for such purpose by purchase, condemnation or new construction and without regard to the fact that such utilities may be in competition with privately owned public utilities. Such municipal corporations and public agencies are empowered among other things, to condemn properties already operated by privately owned public utilities. There has been, from time to time, agitation in the territory served by the Company, including the City of San Diego and smaller adjacent municipalities, to form lighting districts, or in various ways to engage in municipal ownership of electric plants and distribution systems. On several occasions the City has voted on a charter amendment authorizing the formation of a municipal water, power, and sewerage board, and the issuance by such board of revenue bonds wherewith to undertake utility enterprises. In all cases these proposals were defeated.

In connection with Standard Gas and Electric Company's Plan for divestment of its control of the Company, local newspapers have reported suggestions that the City of San Diego acquire the Company's property. Municipal or other public ownership of utilities is being actively promoted at various places in California. Endeavor is being made to have laws passed by the California Legislature, which would facilitate the issuance of revenue bonds for such purposes. The disposal of the power to be generated by Shasta Dam through the Central Valleys Project is likely to bring these proposals into greater prominence during the next several years.

The United States Navy has had a report prepared on the desirability of installing its own plants sufficient in capacity to provide a supply of electricity for its own shore stations in and about San Diego. One of these shore stations has a plant which was installed in 1921. This is now of insufficient capacity to supply the station and has been used only for emergencies since February 1, 1939. The Company is informed that another shore station has called for bids on a plant. It is believed by the Company that this also will be used only in emergencies since it will be of inadequate capacity to supply the entire requirements of the shore station.

## SOURCES OF POSSIBLE DAMAGE FROM FORCES OF NATURE

California is subject to earthquakes. While there have been no seriously destructive shocks in the territory served by the Company during the past fifty years, yet light earthquakes are not infrequent, and it is believed possible that a serious earthquake may be experienced at some time in the future. The Company carries earthquake insurance on its principal steam-electric generating station, known as Station "B," on its office building known as the Electric Building, and has a blanket policy on smaller buildings. These policies have substantial deductible clauses under which the Company carries the initial risk. The Company is not covered by insurance for general damage resulting from earthquakes.

The area served by the Company has infrequently in the past experienced floods in the coastal river valleys. These have resulted in some damage to its electric transmission and distribution lines, largely in agricultural areas.

The Company's operations are affected by climatic conditions. In the territories served much of the house heating is by the use of gas, and the climate is such that relatively little or no heat is necessary in mild years, while considerable is required in colder years. Accordingly, the percentage of variation in use is higher than in territories with colder climates, in which there is always a longer heating season. Similarly, fluctuations in rainfall cause a considerable variation in the use of electricity for pumping for irrigation.

## EMPLOYEE RELATIONS

Under date of August 18, 1939, the Company entered into an agreement, expiring August 12, 1941, with Local Union B-465 of San Diego, of the International Brotherhood of Electrical Workers, affiliated with the American Federation of Labor, covering wages and hours for its mechanical employees.

For some time past the Company has had under consideration plans for a pension system for employees in addition to that provided by the Federal Social Security Act.



It is probable that such a plan will be adopted in the near future and that the annual cost thereof, based on accruals for services in the future without any allowances for past services, will be approximately \$90,000 a year. The Company is at present making a study of its reserves which might be available for past service deficits. The plan contemplated provides that future service benefits will be paid for in part by the employees themselves.

#### **REGULATION BY SECURITIES AND EXCHANGE COMMISSION UNDER THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935**

Standard Power and Light Corporation and Standard Gas and Electric Company have registered as holding companies under the Public Utility Holding Company Act of 1935.

The Public Utility Holding Company Act of 1935 provides that the Securities and Exchange Commission shall have jurisdiction over registered holding companies and their subsidiary companies, to whatever degree of remoteness, including, among other things, jurisdiction in respect of securities and particularly with regard to the issue or sale of any security and to the exercise of any privilege or right to alter the priorities, preferences, voting power or other rights of the holders of any outstanding security, the acquisition or sale of securities and utility assets or other interests, the making of inter-company loans, the payment of dividends, and the entering into and performance of service, sales and construction contracts, to the extent and as more particularly defined and provided in such Act.

Upon consummation of Standard Gas and Electric Company's Plan for divestment of control as described under the caption "Management and Control," the Company does not believe it will be subject to regulation by the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935.

#### **LEGAL PROCEEDINGS**

On March 6, 1940 the Securities and Exchange Commission issued a Notice and Order for hearing pursuant to Section 11(b)(1) of the Public Utility Holding Company Act of 1935, in "In the matter of Standard Power and Light Corporation, Standard Gas and Electric Company and subsidiary companies thereof, Respondents, File No. 59-9." The Company was named in the Order as a respondent and was required by said Order to answer certain allegations in regard to it, and generally the Company was ordered to state in its answer what steps, if any, it was taking to carry out the terms and provisions of the Public Utility Holding Company Act of 1935. The Order further provided that the purpose of such hearing was to determine, among other things, what action, if any, was necessary and to be required to be taken by the respondent in said proceedings or any of them, to limit the operations of the holding company systems of each of the respondents as might be a registered holding company, to a single integrated public utility system, and to such other businesses as were reasonably incidental or economically necessary or appropriate to the operations of such integrated public utility system. The Company answered the foregoing Notice and Order admitting certain and denying certain of the allegations, stating the nature of its business, alleging that it was not a holding company or a registered holding company and was engaged in certain other businesses beside distribution and transmission of gas and electricity, and that such other businesses were economically necessary to the efficient operation of its electric and gas utility business, and alleging that it was required to make its answer under compulsion. Such answer further denied the authority of the Securities and Exchange Commission to issue said Notice and Order and reserved to the Company the right to contest the validity of the Public Utility Holding Company Act of 1935, and the power of the Securities and Exchange Commission thereunder. (See information set forth under caption "Management and Control.")

On July 14, 1939, the Federal Power Commission issued an order for the Company to show cause why, among other things, it had failed to comply with the Electric Plant Account Instruction 2D of the Commission's Uniform System of Accounts, promulgated pursuant to provisions of the Federal Power Act, to which order the Company filed its answer on August 15, 1939, denying, among other things, the jurisdiction of said Commission as to the Company under said Act and requesting that such order to show cause be dismissed. No further proceedings have been taken or held.

## HISTORICAL FINANCIAL INFORMATION

During 1939 the Company wrote off to its depreciation reserve account the investment in its manufactured gas plant and accessories located in San Diego, California. The plant has been operated but seldom and only for very brief periods since the introduction of natural gas in 1932. However, the plant is being kept in good repair in order that it may be put into operation in case of emergency. As a result of this write-off, the utility plant account was reduced \$1,008,199.49, and the depreciation reserve account was reduced a like amount. This has been reported to the Railroad Commission of the State of California.

The foregoing Historical Financial Information is taken from the answers to Item 45 of the Registration Statement which were reviewed by Haskins & Sells, independent public accountants. In connection therewith, they have furnished the following Letter of Opinion:

### "OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO ITEM 45

San Diego Gas & Electric Company:

We have examined the foregoing answers to Item 45, and in connection therewith we have reviewed the pertinent accounts. In our opinion, such answers fairly set forth the information called for by the respective questions.

HASKINS & SELLS

Los Angeles,  
September 14, 1940."

## DEPRECIATION AND AMORTIZATION POLICY

A Statement of the Depreciation and Amortization Policy of the Company appears in Note 3 to the Statement of Income included in this Prospectus.

## EXPERTS

Messrs. Chickering & Gregory are, and for many years past have been, counsel for the Company and have furnished the legal opinion filed as an Exhibit to the Registration Statement. Of the members of the firm of Chickering & Gregory, Allen L. Chickering is an officer and director of the Company and W. C. Fox, Jr. is an officer of the Company.

Messrs. Haskins & Sells, who have certified certain financial statements contained herein, have been employed for many years as independent public accountants to make examinations of the books and accounts of the Company.

Except as above stated, none of the members of the firm of Haskins & Sells, nor of Chickering & Gregory, to the knowledge of the Company, has any interest of a substantial nature in the Company, or any affiliate thereof; nor has received, or is to receive, any such interest as a payment for such service. Neither Haskins & Sells nor Chickering & Gregory have been employed upon a contingent basis.

## FINANCIAL STATEMENTS

The balance sheet, statement of income and the statement of surplus of the Company given in the following pages are accompanied in the Registration Statement by various supporting schedules required to be included in the Registration Statement, Form A-2, by the instructions promulgated by the Securities and Exchange Commission under the Securities Act of 1933. All of such supporting schedules are not contained in this Prospectus but are on file with the Securities and Exchange Commission at Washington, D. C.

### NOTE:

Those portions of the financial statements which relate to the three years ended December 31, 1939 are covered by the Certificate of Messrs. Haskins & Sells, independent public accountants, set forth below. Those portions thereof which relate to the six months ended June 30, 1940 have not been examined by the independent public accountants and consequently are not covered by such certificate. The data presented in the financial statements in respect of the six months ended June 30, 1940 have been compiled by the Company in accordance with its usual accounting principles and practices, and are subject to audit.

CERTIFICATE OF INDEPENDENT PUBLIC ACCOUNTANTS

San Diego Gas & Electric Company:

We have examined the balance sheet of San Diego Gas & Electric Company (formerly San Diego Consolidated Gas & Electric Company) as of December 31, 1939, and the related statements of income and surplus for the three years ended that date, have reviewed the system of internal control and the accounting procedures of the Company, and have examined or tested its accounting records and other supporting evidence by methods and to the extent we deemed appropriate.

In our opinion, the accompanying balance sheet, statement of income, and statement of surplus, with their footnotes, fairly present the financial condition of the Company at December 31, 1939 and the results of its operations for the three years ended that date, in conformity with generally accepted accounting principles and practices consistently followed by the Company.

HASKINS & SELLS

Los Angeles,  
September 14, 1940.

**SAN DIEGO GAS & ELECTRIC COMPANY**  
(Incorporated in California)  
**BALANCE SHEET, DECEMBER 31, 1939 AND JUNE 30, 1940**

ASSETS	December 31, 1939	June 30, 1940 (not examined by independent public accountants)
UTILITY PLANT (Note 1):		
Property, plant, and equipment .....	\$41,850,803.86	\$42,586,255.33
Intangibles .....	1,328,243.63	1,328,243.63
Total utility plant .....	<u>\$43,179,047.49</u>	<u>\$43,914,498.96</u>
CURRENT ASSETS:		
Cash on hand and demand deposits .....	\$ 419,936.48	\$ 435,395.80
Accounts and notes receivable—Customers (including installment accounts of which approximately \$58,000 are due after one year) (less reserve for uncollectible accounts—\$109,295.84 at December 31, 1939 and \$112,626.95 at June 30, 1940) .....	628,966.13	619,665.17
Inventories (at average cost):		
Materials and supplies .....	393,789.66	445,625.96
Appliances held for resale .....	63,852.53	78,779.21
Indebtedness of affiliated companies.....	4.93	73.99
Accounts and notes receivable—Other .....	21,292.31	6,710.13
Prepayments .....	14,485.28	36,422.43
Total current assets .....	<u>\$ 1,542,327.32</u>	<u>\$ 1,622,672.69</u>
DEFERRED CHARGES:		
Unamortized debt discount and expense (including the unamortized portion of discount and expense and redemption premium on bonds called before maturity; being amortized over the life of the presently outstanding is- sue) (Note 2) .....	\$ 1,569,487.65	\$ 1,538,510.79
Other deferred charges .....	24,009.20	114,442.16
Total deferred charges .....	<u>\$ 1,593,496.85</u>	<u>\$ 1,652,952.95</u>
DISCOUNT AND EXPENSE, LESS PREMIUMS, ON CAPITAL STOCK (not being amortized) (Note 3).....	\$ 477,567.50	\$ 477,567.50
TOTAL.....	<u><u>\$46,792,439.16</u></u>	<u><u>\$47,667,692.10</u></u>

# SAN DIEGO GAS & ELECTRIC COMPANY

(Incorporated in California)

## BALANCE SHEET, DECEMBER 31, 1939 AND JUNE 30, 1940

LIABILITIES	December 31, 1939	June 30, 1940 (not examined by independent public accountants)
<b>CAPITAL STOCK (Note 3) :</b>		
Preferred:		
Six Per Cent. Cumulative (authorized, 87,075 shares, par value \$100.00 each, redeemable on 60 days' notice at \$110.00 per share and accrued dividends; none issued) .....	Nil	Nil
Seven Per Cent. Cumulative (authorized and outstanding, 62,925 shares, par value \$100.00 each, redeemable on 60 days' notice at \$115.00 per share and accrued dividends; total amount at which redeemable, \$7,236,375.00 and accrued dividends).....	\$ 6,292,500.00	\$ 6,292,500.00
Common (authorized, 150,000 shares, par value \$100.00 each; outstanding, 100,325 shares) .....	10,032,500.00	10,032,500.00
Total capital stock .....	\$16,325,000.00	\$16,325,000.00
<b>FUNDED DEBT:</b>		
First Mortgage Bonds, 4% Series due 1965 (Note 2).....	\$15,500,000.00	\$15,500,000.00
<b>CURRENT LIABILITIES :</b>		
Notes payable to banks .....	\$ 500,000.00	\$ 300,000.00
Accounts payable .....	215,119.22	158,595.56
Indebtedness to affiliated companies .....	4,832.62	9,209.81
Dividend payable on preferred stock .....	110,118.75	110,118.75
Customers' deposits .....	144,765.66	149,116.17
Accrued salaries and wages .....	36,203.03	67,436.72
Accrued taxes (Note 4) .....	841,225.82	1,022,032.50
Accrued interest .....	111,078.96	110,849.21
Other current and accrued liabilities .....	984.22	1,115.78
Total current liabilities .....	\$ 1,964,328.28	\$ 1,928,474.50
<b>DEFERRED LIABILITIES :</b>		
Customers' advances for construction .....	\$ 100,946.68	\$ 106,756.63
Land purchase contract .....	16,926.00	16,458.00
Total deferred liabilities .....	\$ 117,872.68	\$ 123,214.63
<b>RESERVES :</b>		
Depreciation .....	\$ 9,665,275.72	\$10,313,397.16
Amortization of limited-term investments .....	3,867.33	3,867.33
Other reserves .....	168,172.77	204,527.34
Total reserves .....	\$ 9,837,315.82	\$10,521,791.83
CONTRIBUTIONS IN AID OF CONSTRUCTION.....	\$ 572,501.07	\$ 587,105.52
EARNED SURPLUS, PER STATEMENT OF SURPLUS.....	\$ 2,475,421.31	\$ 2,682,105.62
TOTAL.....	\$46,792,439.16	\$47,667,692.10

The notes on pages 30 and 31 are an integral part of this balance sheet.

**SAN DIEGO GAS & ELECTRIC COMPANY**  
(Incorporated in California)  
**BALANCE SHEET, DECEMBER 31, 1939 AND JUNE 30, 1940**  
(Continued)

NOTES:

1. Utility plant, comprising property, plant, and equipment and intangibles, is stated at cost, except as to relatively minor properties acquired by purchase which were recorded at values approved by the Railroad Commission of the State of California, less retirements. In the case of certain properties acquired in 1916, 1917, 1920, and 1921 (at values approved by the Railroad Commission of the State of California) and property acquired at organization of the Company in 1905, cost (to the extent of approximately \$3,000,000) was based on the principal amount or par value of securities issued or assumed in connection with the acquisitions.

Intangibles include (a) \$1,259,548.96 which represents the excess of the amount at which property acquired from a predecessor company in 1905 was recorded in the accounts of the Company over the valuation subsequently assigned by the Railroad Commission of the State of California to the tangible assets acquired in the transaction, and (b) \$25,000.00 which represents the excess of the consideration given for certain property acquired in 1922 over the valuation assigned to the tangible assets acquired. These amounts are not included in the rate base established by the Railroad Commission of the State of California in its Decision 27730 referred to in the following paragraph.

In Decision 27730, decided February 4, 1935, in the last formal proceeding relating to the Company's rates, the Railroad Commission of the State of California determined that, in round figures, \$1,360,000 of the fees paid for engineering services performed by Byllesby Engineering and Management Corporation (now by change of name, Public Utility Engineering and Service Corporation), an affiliated service company, and H. M. Byllesby and Company, an affiliated company, prior to December 31, 1933, represented the amount of the difference between the fees paid for such services and the cost of rendering such services which remained in the property, plant and equipment account as of that date. The Railroad Commission did not include the \$1,360,000 representing such estimated profits in the rate base established in its Decision 27730. On the basis of computations made by the Company, the amount of such estimated profits, as determined by the Railroad Commission, remaining in the capital accounts of the Company as of December 31, 1939 has been reduced, as a result of property retirements made since December 31, 1933, to approximately \$1,205,000.

The amount at which the utility plant is stated does not purport to represent its present realizable value or replacement cost.

2. Under date of August 16, 1940 the Company entered into an agreement with The Equitable Life Assurance Society of the United States for the sale to the latter of \$16,000,000.00 principal amount of the Company's First Mortgage Bonds, 3 $\frac{3}{8}$ % Series due July 1, 1970, for a total consideration of \$17,180,800.00 and accrued interest from July 1, 1940 to the date of delivery, which under the provisions of the agreement is to be between September 15 and October 15, 1940. If the sale is consummated the consideration to be received upon the delivery of such new bonds, after deducting expenses, is to be used (a) to redeem \$15,500,000.00 principal amount of the Company's First Mortgage Bonds, 4% Series due 1965, presently outstanding, at a total redemption price of \$16,585,000.00 plus accrued interest to date of payment, which is to be made on or before November 2, 1940; (b) to pay the balance of \$250,000.00 of notes payable to banks (\$50,000.00 was paid on July 24, 1940) and (c) to reimburse the Company's treasury in part for capital expenditures heretofore made. The Company proposes to make such arrangements as to unamortized discount and expense on the presently outstanding bonds and previous issues of bonds, call premium on redemption of said outstanding bonds and previous issues, and expenses in connection with the issuance of the First Mortgage Bonds, 3 $\frac{3}{8}$ % Series due July 1, 1970, as may be prescribed by the Railroad Commission of the State of California in its Order authorizing the issuance and sale of such bonds. It is, however, anticipated that the Company will be required to charge off to earn surplus approximately \$350,000.00 of unamortized discount and expense and redemption premiums applicable to issues of funded debt previously refunded.
3. Upon the amendment of the Articles of Incorporation of the Company (as proposed) and the retirement of Seven Per Cent. Cumulative Preferred Stock the authorized Capital Stock of the Company will consist of following:

<u>CLASS</u>	<u>NUMBER OF SHARES</u>	<u>AGGREGATE PAR VALUE</u>
Preferred:		
Cumulative Preferred Stock, 5% Series, \$20 par value.....	550,000	\$11,000,000
Cumulative Preferred Stock, Series B (Dividend rate undetermined), \$20 par value .....	200,000	4,000,000
Common (\$10 par value) .....	1,500,000	15,000,000

The Seven Per Cent. Cumulative Preferred Stock outstanding as shown in the balance sheet is to be retired either through exchange for shares of Cumulative Preferred Stock, 5% Series, \$20 par value, on the basis of five shares of Cumulative Preferred Stock, 5% Series, \$20 par value, for one share of Seven Per Cent. Cumulative Preferred Stock (\$100.00 par value), or by redemption from the proceeds of the sale of shares of Cumulative Preferred Stock, 5% Series, \$20 par value; upon completion of these transactions, the outstanding preferred stock will consist of \$6,292,500.00 aggregate par value of Cumulative Preferred Stock, 5% Series, \$20 par value, and the Seven Per Cent. Cumulative Preferred Stock will cease to be authorized. Common Stock outstanding as shown in the balance sheet (par value \$100.00 per share) is to be reclassified into shares of \$10.00 par value on the basis of ten shares of \$10.00 par value for each share of \$100.00 par value, making a total of 1,003,250 shares of new Common Stock outstanding, the aggregate par value of Common Stock outstanding to remain unchanged at \$10,032,500.00.

**SAN DIEGO GAS & ELECTRIC COMPANY**  
(Incorporated in California)  
**BALANCE SHEET, DECEMBER 31, 1939 AND JUNE 30, 1940**  
(Continued)

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OTES: (continued)

In its application to the Railroad Commission of the State of California for authority to issue and sell or exchange shares of its Cumulative Preferred Stock, 5% Series, \$20 par value, the Company requested permission to credit the amount of the premiums to be received by it from the sale of shares of such stock to underwriters, namely \$3.00 per share, to paid-in surplus or capital surplus, and to charge against such surplus the redemption premiums upon the shares of Seven Per Cent. Cumulative Preferred Stock to be redeemed. The Board of Directors of the Company will determine by resolution that such premiums to be received upon the sale of said shares of Cumulative Preferred Stock, 5% Series, \$20 par value, will be credited to paid-in or capital surplus and the premiums to be paid upon such Seven Per Cent. Cumulative Preferred Stock will be charged thereto, or, in both cases, in such other manner as the Railroad Commission may prescribe in its order.

If the foregoing transactions are consummated the Company proposes to charge off to earned surplus the balance as of June 30, 1940 of \$477,567.50 discount and expense, less premiums, on capital stock.

- i. The amount of accrued taxes as of June 30, 1940 does not purport to include the entire liability for ad valorem taxes which became a lien on the properties as of the first Monday in March 1940 but which are not yet due and payable. The Company believes, however, that adequate provision for the payment of such taxes as they become due and payable is being made currently, a part of which provision is included in the accrued taxes account at June 30, 1940. The total amount of such taxes is estimated at \$1,000,000, of which \$501,000.00 is included in the accrued taxes account at June 30, 1940. Provision for Federal income taxes for the six months ended June 30, 1940 is on the basis of income tax laws in effect as of June 30, 1940.
  
  - i. There were no known contingent liabilities at the above dates for which provision had not been made.
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# SAN DIEGO GAS & ELECTRIC COMPANY

## STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1937, 1938, AND 1939  
AND THE SIX MONTHS ENDED JUNE 30, 1940

	Year Ended December 31			Six Months Ended June 30, 1940 (not examined by independent public accountants)
	1937	1938	1939	
<b>OPERATING REVENUES:</b>				
Electric department .....	\$ 5,062,676.10	\$ 5,332,951.55	\$ 5,466,280.47	\$ 2,899,392.24
Gas department .....	3,056,943.87	3,082,472.70	3,102,579.73	1,740,900.23
Steam department .....	76,542.77	69,045.08	64,778.88	35,830.31
Total operating revenues .....	<u>\$ 8,196,162.74</u>	<u>\$ 8,484,469.33</u>	<u>\$ 8,633,639.08</u>	<u>\$ 4,676,122.78</u>
<b>OPERATING EXPENSES:</b>				
Operation:				
Production (including electric power and gas purchased) .....	\$ 1,417,600.00	\$ 1,329,925.57	\$ 1,328,294.99	\$ 717,164.05
Transmission .....	28,216.99	22,867.64	24,355.02	11,975.41
Distribution .....	604,336.22	584,714.14	602,676.64	295,925.59
Customers' accounting and collecting ....	313,572.44	331,594.20	347,175.67	177,880.19
Sales promotion .....	223,404.69	251,105.04	256,797.42	129,492.40
Administrative and general .....	412,602.75	530,427.37	520,050.97	270,853.17
Provision for doubtful accounts .....	19,789.66	14,435.76	14,804.37	8,425.83
Maintenance .....	532,910.11	614,759.33	743,669.56	311,921.19
Depreciation .....	1,285,000.00	1,355,000.00	1,379,851.40	770,000.00
Amortization of limited-term investments (patents and franchises) .....		460.48	428.95	
Taxes other than Federal income taxes ....	1,153,409.89	1,053,042.99	1,170,171.82	629,690.01
Total operating expenses .....	<u>\$ 5,990,842.75</u>	<u>\$ 6,088,332.52</u>	<u>\$ 6,388,276.81</u>	<u>\$ 3,323,327.84</u>
NET OPERATING INCOME .....	<u>\$ 2,205,319.99</u>	<u>\$ 2,396,136.81</u>	<u>\$ 2,245,362.27</u>	<u>\$ 1,352,794.94</u>
<b>OTHER INCOME:</b>				
Dividends on other security investment ....	\$ 200.00	\$ 200.00	\$ 187.50	
Interest .....	4,931.79	397.36	2,257.82	\$ 18.68
Rent from non-operating property .....	20,680.30			
Total .....	<u>\$ 25,812.09</u>	<u>\$ 597.36</u>	<u>\$ 2,445.32</u>	<u>\$ 18.68</u>
Less non-operating expenses .....	22,805.50			
Total other income .....	<u>\$ 3,006.59</u>	<u>\$ 597.36</u>	<u>\$ 2,445.32</u>	<u>\$ 18.68</u>
GROSS INCOME .....	<u>\$ 2,208,326.58</u>	<u>\$ 2,396,734.17</u>	<u>\$ 2,247,807.59</u>	<u>\$ 1,352,813.62</u>
<b>INCOME DEDUCTIONS:</b>				
Interest on funded debt .....	\$ 620,000.00	\$ 620,000.00	\$ 620,000.00	\$ 310,000.00
Amortization of debt discount and expense	61,953.72	61,953.72	61,953.72	30,976.86
Other interest .....	9,069.49	10,270.89	7,751.50	6,232.73
Interest charged to construction .....	36,563.15*	23,714.10*	20,478.83*	3,350.16*
Miscellaneous .....		7,670.00	8,261.60	4,557.94
Total income deductions .....	<u>\$ 654,460.06</u>	<u>\$ 676,180.51</u>	<u>\$ 677,487.99</u>	<u>\$ 348,417.37</u>
NET INCOME BEFORE PROVISION FOR FEDERAL INCOME TAXES .....	<u>\$ 1,553,866.52</u>	<u>\$ 1,720,553.66</u>	<u>\$ 1,570,319.60</u>	<u>\$ 1,004,396.25</u>
PROVISION FOR FEDERAL INCOME TAXES.....	222,000.00	250,000.00	237,775.00	155,000.00
NET INCOME .....	<u>\$ 1,331,866.52</u>	<u>\$ 1,470,553.66</u>	<u>\$ 1,332,544.60</u>	<u>\$ 849,396.25</u>

\* Denotes credit.

The notes on the following page are an integral part of this statement.



**SAN DIEGO GAS & ELECTRIC COMPANY**  
**STATEMENT OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 1937, 1938, AND 1939**  
**AND THE SIX MONTHS ENDED JUNE 30, 1940**

(Continued)

NOTES:

1. Profits and losses on sales of appliances made on an installment basis are taken into current operations at the time the sales are made.

2. As of January 1, 1938, the Company adopted the uniform system of accounts prescribed by the Railroad Commission of the State of California which became effective as of that date and which differed in certain respects from the system of accounts previously in use. The operations for the three years and six months under report are stated above in accordance with the classification of accounts in effect during the respective periods. The following are the principal items included in the operations for the year ended December 31, 1937, which would have been classified differently had the system of accounts in effect during the years ended December 31, 1938 and 1939 and the six months ended June 30, 1940, been in use for that year:

Payments to cities and counties in compliance with franchise requirements of \$91,968.28, included in taxes, would have been classified as administrative and general expenses.

Maintenance supervision of approximately \$48,500 of which \$9,000 is included in production expenses, \$1,500 in transmission expenses, and \$38,000 in distribution expenses, would have been classified as maintenance.

Interchange power credits of \$8,517.79, included in operating revenues of the electric department, would have been deducted from production expenses.

Donations of \$7,700.00, included in administrative and general expenses, would have been shown as miscellaneous income deductions.

The net loss from non-operating property of \$2,125.20 (non-operating expenses less rent from non-operating property), included in other income, would have been deducted from operating revenues.

3. The accounting during the periods under report with respect to depreciation, amortization, retirements, maintenance, etc., is in accord with the uniform system of accounts prescribed by the Railroad Commission of the State of California and is summarized briefly in the following paragraphs of this note.

Provision for depreciation of property, plant, and equipment other than transportation and construction equipment is made in amounts representing approximations based upon the estimated service lives of the respective classes of depreciable assets, using a six per cent sinking-fund method. The ratios of the total provisions to the related aggregate depreciable asset balances for the periods under report are as follows: 1937, 3.50%; 1938, 3.52%; 1939, 3.53%; 1940 (on an annual basis), 3.48%. The reserve to which such provision is credited is charged with the cost (estimated if not known) of property, plant, and equipment retired or otherwise disposed of, plus removal costs, less salvage. No specific provision is made for obsolescence.

Provision for depreciation of transportation and construction equipment is based upon the estimated service lives of the respective classes of equipment, using a straight-line method. Such provision is charged to clearing accounts distributed to operations and construction, and is not included in the item of depreciation in the Statement of Income. The amounts of the provisions and the ratios thereof to the average aggregate monthly asset balances for the periods under report are as follows: 1937 (estimated), \$31,000.00, 8.10%; 1938, \$41,323.16, 10.78%; 1939, \$40,573.68, 10.37%; 1940, \$23,135.19, 11.72% on an annual basis. The reserves to which such provisions are credited are charged with the cost of equipment retired or otherwise disposed of, less salvage; concurrently, the provision for the current period is increased to the extent of any deficiency or decreased to the extent of any excess in the reserve in respect of the equipment disposed of.

Prior to January 1, 1938, no provision was made for amortization of intangibles except that patents and franchises were written off following their expiration. As of January 1, 1938, in accordance with the uniform system of accounts which became effective as of that date, a reserve was established (by a charge to earned surplus in the amount of \$3,731.02) for amortization of limited-term investments (patents and franchises), and since that date provision has been made for amortization of the cost of these items over the period of their respective lives, using a straight-line method. Patents and franchises are charged to the reserve at their expiration. With respect to intangibles other than patents and franchises, no provision is made for amortization thereof.

Maintenance includes labor, materials, overhead, and other expenses incurred in maintenance and repair work. Maintenance of property, plant, and equipment other than transportation and construction equipment is charged to operating expenses (with respect to maintenance supervision for 1937, see Note 2). Maintenance of transportation and construction equipment is charged to clearing accounts distributed to operations and construction; the amounts of maintenance and repairs applicable to the equipment for the periods under report were as follows: 1937, \$34,673.54; 1938, \$35,343.94; 1939, \$35,259.63; 1940 (six months), \$17,184.29. The item of maintenance shown in the Statement of Income does not include maintenance of transportation and construction equipment, except to the extent of a portion, impracticable of determination, of the distributions made from the clearing accounts referred to.

Renewals of units of property, plant, and equipment other than minor items are charged to the appropriate plant accounts and the latter are relieved of the cost of the units replaced; renewals of minor items are charged to maintenance. This practice is followed also with respect to betterments.

4. The rents paid during the periods under report, and the accounts to which charged, are as follows (no royalties were paid during the periods):

Account	1937	1938	1939	1940 (six months)
Operating expenses .....	\$11,923.99	\$12,079.36	\$12,491.26	\$ 5,941.29
Property, plant, and equipment .....	2,016.36	872.61	631.36	310.68
Clearing accounts .....	919.35	986.73	1,034.75	575.33
Total .....	<u>\$14,859.70</u>	<u>\$13,938.70</u>	<u>\$14,157.37</u>	<u>\$ 6,827.30</u>

5. The Company has agreed with the Railroad Commission of the State of California and the City of San Diego to reduce electric and gas rates of the Company, which reduction, if applied to the Company's estimated sales for the calendar year 1940 would reduce gross revenues from electricity for such period by approximately \$130,000 and from gas by approximately \$74,000. The new rates are to be effective on all meter readings on and after November 1, 1940. A further investigation of the Company's operations to determine the possibility of additional rate reductions will be commenced by the Commission's engineers on or about December 1, 1940.

**SAN DIEGO GAS & ELECTRIC COMPANY**  
**STATEMENT OF SURPLUS**  
**FOR THE YEARS ENDED DECEMBER 31, 1937, 1938, AND 1939**  
**AND THE SIX MONTHS ENDED JUNE 30, 1940**

	Year Ended December 31			Six Months Ended June 30, 1940 (not examined by independent public accountants)
	1937	1938	1939	
EARNED SURPLUS AT BEGINNING OF THE PERIOD	\$ 1,846,763.89	\$ 1,927,977.15	\$ 2,217,630.80	\$ 2,475,421.31
NET INCOME, FROM STATEMENT OF INCOME.....	1,331,866.52	1,470,553.66	1,332,544.60	849,396.25
OTHER ADDITIONS TO EARNED SURPLUS:				
Refund on subscription to San Diego Ex- position .....	5,000.00			
Accrued common stock dividend at De- cember 31, 1937, included below in divi- dends paid .....		66,883.34		
Adjustment of municipal taxes accrued in prior year .....			60,346.85	
Refund of insurance premiums and interest thereon applicable to prior years' oper- ations, less Federal income and State franchise taxes applicable thereto of \$31,606.00 .....			117,749.29	
Other adjustments applicable to prior years (net) .....			9,258.01	
<b>TOTAL .....</b>	<b>\$ 3,183,630.41</b>	<b>\$ 3,465,414.15</b>	<b>\$ 3,737,529.55</b>	<b>\$ 3,324,817.56</b>
CHARGES TO EARNED SURPLUS:				
Dividends paid in cash:				
Preferred stock (7% per annum) .....	\$ 440,475.00	\$ 440,475.00	\$ 440,475.00	\$ 220,237.50
Common stock (8% per annum) .....	802,600.00	802,600.00	802,600.00	401,300.00
Interest on additional Federal income and State franchise taxes applicable to prior years .....	12,578.26	62.28	3,033.24	2,053.49
Unbilled electricity and gas credited to surplus in prior year .....			16,000.00	
Liability insurance refunds applicable to construction, credited to operations in prior years .....				19,120.95
Other adjustments applicable to prior years .....		4,646.07		
<b>Total charges .....</b>	<b>\$ 1,255,653.26</b>	<b>\$ 1,247,783.35</b>	<b>\$ 1,262,108.24</b>	<b>\$ 642,711.94</b>
<b>EARNED SURPLUS AT CLOSE OF THE PERIOD.....</b>	<b>\$ 1,927,977.15</b>	<b>\$ 2,217,630.80</b>	<b>\$ 2,475,421.31</b>	<b>\$ 2,682,105.62</b>

## FURTHER INFORMATION CONTAINED IN THE REGISTRATION STATEMENT

Further information concerning these securities and their issuer is to be found in the Registration Statement on file with the Securities and Exchange Commission, Washington, D. C. The Registration Statement may be inspected by anyone at the office of the Commission, without charge, and copies of all or any part of it may be obtained upon payment of the Commission's charge for copying.

The additional information concerns the following subjects:

Certain information as to the Company's Funded Debt.

Expenses of the Company in connection with the securities offered hereby.

Certain provisions of the Underwriting Agreement.

Business experience of principal executive officers for the past five years.

Securities of the Company owned by directors, officers, principal Underwriters and Standard Gas and Electric Company.

Remuneration paid to officers, directors and employees.

Remuneration to others in excess of \$20,000 during 1939.

Information concerning certain contracts.

Names of accountants who have certified Financial Statements since 1922.

Consents of Experts.

The following Supporting Schedules of the Financial Statements of the Company filed with the Registration Statement, have been omitted from this Prospectus:

- III. Investments in Securities of Affiliates.
- V. Property, Plant, and Equipment.
- VI. Reserves for Depreciation of Property, Plant, and Equipment.
- VII. Intangibles.
- VIII. Reserve for Amortization of Limited-Term Investments.
- IX. Funded Debt.
- XII. Reserves.
- XIII. Capital Stock.
- XVI. Supplementary Profit and Loss Information.
- XVII. Income from Dividends.

The Supporting Schedules of the Financial Statements which have been omitted from the Prospectus, together with all exhibits to the Registration Statement are on file with the Commission as a part of the Registration Statement. Such exhibits include, among others, the Articles of Incorporation and Amendments thereto, By-Laws and Amendments thereto, Trust Indenture and form of proposed Mortgage and Deed of Trust, the Underwriting Agreement, opinion of counsel, contracts, franchises, permits, licenses, and Decision No. 27,730 of the Railroad Commission of the State of California.

SAN DIEGO GAS & ELECTRIC COMPANY  
W. F. Raber, President.