

Decision No. 37930

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA-PACIFIC UTILITIES COMPANY for an order authorizing it (a) to assume \$200,000 principal amount of bonds of West Coast Power Company; (b) to issue and sell \$230,000 principal amount of its First Mortgage Bonds, Series A, 3-1/2%, due 1969; (c) to issue and sell \$110,000 par value of its preferred stock; and (d) to issue and sell \$79,800 par value of its common stock.

Application No. 26642

ORRICK, DAHLQUIST, NEFF, BROWN and HERRINGTON
by T. W. DAHLQUIST, for applicant.

BY THE COMMISSION:

O P I N I O N

This is an application by California-Pacific Utilities Company for an order of the Railroad Commission authorizing it to assume the payment of the outstanding Series B, 4% bonds of West Coast Power Company in the aggregate principal amount of \$200,000, and to issue and sell its own securities as follows:

1. \$230,000 principal amount of First Mortgage Bonds, Series A, 3-1/2%, due July 1, 1969, at 103 per cent of face value plus accrued interest.

2. 5,500 shares of its 5% preferred stock of the par value of \$20 a share, and of the aggregate par value of \$110,000, at a price to net it \$20 per share flat.

3. 3,990 shares of its common stock of the par value of \$20 a share, and of the aggregate par value of \$79,800, at a price to net it \$20 per share.

The company proposes to use the proceeds it will receive from the issue of its securities to pay and redeem the \$200,000 of bonds of West Coast Power Company and to pay other indebtedness incurred or to be incurred in the purchase of properties.

California-Pacific Utilities Company is a California corporation owning and operating in California, a public utility water system in Benecia and vicinity, a public utility electric system in Weaverville and vicinity, a public utility electric system and water plant in Susanville and vicinity, public utility electric, gas and telephone systems in Needles and vicinity, and public utility gas systems in Yreka and Dunsmuir and vicinity; and, in Oregon, public utility gas systems in Ashland, Grants Pass, Klamath Falls, La Grande, Medford, Phoenix, Roseburg and Talent; and, in Nevada, a public utility electric system in the Nelson Mining District and in Searchlight, and an electric system and water system in Winnemucca and vicinity; and in Idaho, an electric system at Malad City and vicinity; and, in Wyoming, an electric system in Cokeville and vicinity. It also is engaged in the nonutility sale at wholesale of butane air gas in Washington, Idaho and Arizona.

For the twelve months ending December 31, 1944, the company reports its operating revenues at \$1,112,261.58. Its net income for the year, after payment of operating expenses, taxes, interest and other income charges and making provision for depreciation is reported at \$163,484.24. Dividends of \$21,250 were paid on the outstanding preferred stock, being at the rate of 5 per cent per annum on the par value, and of \$69,825 on the common stock, being at the rate of \$1.75 a share on the outstanding 39,900 shares. It appears that about forty-five per cent of

the company's operating revenues were derived from its electric operations.

In summary form, the company's assets and liabilities as of March 1, 1945, are shown below.

ASSETS AND OTHER DEBITS

Utility plant	\$3,807,099.62
Other physical property	5,127.12
Cash and current assets	412,685.37
Deferred debits	<u>105,051.44</u>
Total	<u>\$4,329,963.55</u>

LIABILITIES AND OTHER CREDITS

Common stock--39,900 shares, \$20 par value	\$ 798,000.00
Preferred stock--5% cumulative, 21,250 shares, \$20 par value	425,000.00
Bonds--first mortgage, 3½%, due July 1, 1969	1,600,000.00
Note payable--3%, due June 20, 1945	50,000.00
Other current liabilities	217,286.14
Deferred credits	57,901.68
Reserves	676,588.31
Contributions in aid of construction	37,138.11
Surplus	<u>468,049.31</u>
Total	<u>\$4,329,963.55</u>

The company reports that it desires to augment its gross revenues, particularly its electric revenues, and to that end has entered into an agreement, dated December 26, 1944 (Exhibit "B") to purchase for \$370,000, ⁽¹⁾ plus adjustments and prorations for current assets, the physical properties of West Coast Power Company consisting of two public utility electric systems. One serves Burns and vicinity in Harney County, Oregon, and the other Prairie City, Canyon City and vicinity in Grant County, Oregon. The two systems are not presently interconnected. Each of the systems is said to furnish electric service to approximately 1,100 consumers and to serve each area having a total population of about 3,500. The revenues and expenses of the properties proposed to be acquired by applicant, for the twelve months ending February 28, 1945, are reported as follows:

⁽¹⁾ Purchase price subsequently reduced to \$365,000.

Operating revenues		\$142,500.21
Operating revenue deductions--		
Operating expenses	\$80,442.56	
Depreciation	14,866.00	
Taxes	<u>23,733.39</u>	119,046.95
Operating income		23,453.26
Other income		<u>271.66</u>
Gross income		23,724.92
Income deductions--		
Interest on long-term debt	8,000.00	
Other interest	521.93	
Miscellaneous	<u>590.88</u>	9,112.81
Net income		<u>\$ 14,612.11</u>

The estimated original cost of the properties, adjusted so as to exclude intangibles and acquisition adjustments, less depreciation accrued, is reported at \$381,979.33. The application shows that the properties are subject to the lien of an indenture of mortgage, dated June 1, 1940, securing a presently outstanding indebtedness of \$200,000 of first mortgage bonds, 4%, Series B, due June 1, 1963.

Applicant proposes to pay the purchase price of \$365,000 by assuming the outstanding bonds of West Coast Power Company in the principal amount of \$200,000; by executing a temporary short-term bank loan in the sum of \$165,000, and by withdrawing from its treasury any additional sum, including adjustments for current assets and incidental expenses, required to complete the transaction. The outstanding bonds, which are all owned by Provident Mutual Life Insurance Company of Philadelphia, are redeemable as a whole at any time, upon thirty days' prior notice, at 105% of the principal amount, that is, for \$210,000, plus accrued interest.

Following the acquisition of the two properties, applicant proposes to finance permanently the cost thereof, and also to fund its short-term indebtedness, through the issue of its own bonds and stocks. Its cash requirements and its sources

of funds for these purposes are shown below:

Requirements

To discharge a short term note issued in purchasing gas properties at Yreka and Dunsmuir	\$ 50,000.00
To retire, at 105, the bonds of West Coast Power Company	210,000.00
For the cash payment to West Coast Power Company	<u>165,000.00</u>
Total	<u><u>\$425,000.00</u></u>

Sources of Funds

\$230,000 of first mortgage bonds, Series A, 3½%, at 103	\$236,900.00
Preferred stock, 5%, \$20 par value, 5,500 shares at par, net,	110,000.00
Common stock, \$20 par value, 3,990 shares at par, net,	<u>79,800.00</u>
Total	<u><u>\$426,700.00</u></u>

The company proposes to offer its preferred stock at the price of \$20.125 per share flat to its existing preferred stockholders who are residents of California, at the rate of one new share for each four preferred shares now held, and to offer the common stock at the price of \$20.50 per share to its existing common stockholders at the rate of one new share for each ten common shares now held. In order to insure the sale of all of the proposed new issues, it has entered into an agreement, dated April 3, 1945, (Exhibit "4") with Bankamerica Company whereby that company, among other things, agrees to purchase at par (\$20 a share) for cash all the 5,500 preferred shares and the 3,990 common shares which are not purchased by the present preferred and common stockholders, and to effect a sale of the \$230,000 of bonds to one or more institutional investors at a price to net the applicant 103% of the principal amount plus accrued interest. In the event the bonds are purchased at a price higher than 103, Bankamerica may retain for

its services the excess over and above that price; if they are purchased for less than 103, Bankamerica will make up the deficiency to applicant. Applicant agrees to pay to Bankamerica 12½ cents per share for all of said 5,500 preferred shares and 50 cents per share for all of said 3,990 common shares purchased direct by the present stockholders. Thus, under the arrangements made applicant will be assured of receiving the par value for its stock and 103% of the principal amount of its bonds. It will charge to surplus the premium of \$10,000 it must pay to redeem the West Coast Power Company bonds.

The \$230,000 of bonds proposed to be sold are to be issued under the terms of the company's First Mortgage Indenture, dated as of July 1, 1944, with Bank of America National Trust and Savings Association and William C. Koenig, trustees, the execution of which was authorized by this Commission by Decision No. 37308, dated August 29, 1944. That instrument provides, among other things, in connection with the authentication and delivery of bonds against additional property acquisitions, for the furnishing by the company to the trustee (the corporate trustee) in certain cases of certificates of an independent engineer and an independent accountant setting forth the cost and fair value of such property and other information as required in Section 3.03 of the indenture. In order to save expense, it is proposed to obtain waivers of this requirement from the trustee, the holders of the bonds now outstanding and the purchaser of the bonds proposed to be issued. It is reported that the corporate trustee has approved the form of waiver and that the company's present bondholders have indicated that they will sign the waiver. A copy of the waiver will be submitted to

the purchaser of the \$230,000 of bonds.

Copies of the proposed waivers (one for the existing bondholders and the other for the prospective purchaser) have been filed in this proceeding as Exhibit "1". Inasmuch as such waivers may be construed to be modifications of the original indenture, the Commission is asked to approve them.

O R D E R

California-Pacific Utilities Company having applied to the Railroad Commission for an order authorizing it to assume the payment of indebtedness and to issue bonds and stock, a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion that the application should be granted, as herein provided, and that the money, property or labor to be procured or paid for through the issue of the bonds and stock is reasonably required for the purposes stated herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED as follows:

1. California-Pacific Utilities Company may assume the payment of not exceeding \$200,000 face amount of First Mortgage Bonds, Series B, 4%, dated June 1, 1943, of West Coast Power Company in part payment for the properties of West Coast Power Company referred to herein.
2. California-Pacific Utilities Company may issue and sell, on or before June 30, 1945, not exceeding \$230,000 of its First Mortgage Bonds, Series A, 3½%, due 1969, at not less than 103% of their face value plus accrued interest; not exceeding

5,500 preferred shares of stock of the par value of \$20 each at a price to net not less than \$20 per share flat; and not exceeding 3,990 common shares of stock of the par value of \$20 each at a net price of not less than \$20 per share, all in accordance with the terms and conditions of the agreement on file in this application as Exhibit 4.

3. California-Pacific Utilities Company shall use the proceeds, other than accrued interest, received from the issue and sale of the bonds and stock herein authorized to be issued to pay said \$200,000 of bonds of West Coast Power Company; to pay said note of \$50,000 now outstanding; to pay said \$165,000 short term loan executed for the purpose of obtaining funds to pay West Coast Power Company for its properties and for the reimbursement of its treasury because of income expended for the acquisition of properties. The accrued interest may be used for general corporate purposes.

4. California-Pacific Utilities Company may execute waivers in form substantially the same as the waivers filed as Exhibit "One."

5. The authority herein granted will become effective when California-Pacific Utilities Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Two Hundred Thirty (\$230.00) Dollars.

6. California-Pacific Utilities Company shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, in so far as applicable, is made a part of this order.

7. California-Pacific Utilities Company shall file, on or before July 31, 1945, a statement showing in detail the expenses incurred by it in connection with the issue and sale of the bonds and stock herein authorized to be issued and the names of the accounts to which such expenses were charged. It shall also file a copy of the waivers executed under the authority

herein granted.

Dated at Los Angeles, California, this 22nd day of May, 1945.

(P)

L. Harold Anderson
Justice F. Creeper
Richard K. ...
Francis W. ...
Ernest Powell
 Commissioners

