

Decision No. 44079

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of )  
California Electric Power Company, a )  
corporation, for an order exempting )  
from the competitive bidding rule in )  
Decision No. 38614 and authorizing the )  
issuance and sale of 180,000 shares )  
of its common stock. )  
----- )

Application  
No. 31271

**ORIGINAL**

Donald J. Carman and Fred Oldendorf, Jr.,  
for applicant. O'Melveny & Myers, by  
J. C. Greene.

O P I N I O N

California Electric Power Company, applicant herein, is a corporation organized under the laws of the State of Delaware and engaged in generating, transmitting and distributing electric energy in portions of the States of California and Nevada, in manufacturing and selling ice in Riverside and Imperial Counties in California, and in holding the stock of Interstate Telegraph Company, a corporation engaged in the telephone business in California and Nevada. In this application it seeks an order authorizing it to issue and sell 180,000 shares of common stock and exempting such issue and sale from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946.

The record indicates that applicant has financed its construction costs, in part, through the issue of bonds, shares of preferred stock of several series, and shares of common stock. Its latest annual report filed with the Commission shows the various classes of its outstanding securities as of December 31, 1949, and

the amounts of each, as follows:

First mortgage bonds, 3%, due 1976-78		\$21,500,000
Preferred stock -		
\$3.00 cumulative	\$5,248,150	
2.50 cumulative	<u>3,000,000</u>	8,248,150
Preference stock -		
5½% convertible	1,485,760	
5.6% convertible	<u>1,758,660</u>	3,244,420
Common stock		8,239,541

The outstanding common stock consists of 1,409,701 shares of the par value of \$1 each and with a reported book value of approximately \$7.75. Dividends have been paid on the outstanding shares, during the last few years, at the rate of \$.60 a year per share.

Applicant states that it has need of additional funds from the sale of securities to enable it to proceed with its construction program to meet demands for service. Its estimated expenditures during 1950 and 1951 are reported, in summary form, as follows:

	<u>1950</u>	<u>1951</u>
Electric		
Production	\$ 385,000	\$ 230,000
Transmission	265,000	150,000
Distribution	3,318,000	1,970,000
General	<u>289,000</u>	<u>150,000</u>
Total electric	4,257,000	2,500,000
Telephone	617,000	450,000
Ice	<u>79,000</u>	<u>50,000</u>
Totals	<u>\$4,953,000</u>	<u>\$3,000,000</u>

It appears from the testimony offered at the public hearing held in this matter that a substantial portion of these requirements will be financed with cash on hand and with earnings from operations, but that approximately \$3,500,000 must be obtained from outside sources. At this time, applicant contemplates obtaining approximately \$1,500,000 from the sale of shares of its common stock, with a later issue of \$2,000,000 of bonds. In the meantime, it has

arranged a line of credit with Bank of America National Trust and Savings Association in the amount of \$2,000,000, to be represented by short-term unsecured 2% notes, none of which have been issued or will be issued, according to the testimony, if sufficient money is obtained by permanent financing.

Applicant desires to issue shares of common stock at this time, instead of some other form of security, in order to improve its capital structure and to take advantage of prevailing market conditions. It seeks to dispose of its shares of stock by means of a negotiated underwriting, rather than at competitive bidding, for the reason that in its opinion the size of the issue is not sufficiently large to induce prospective underwriters to take the time or to incur the expense necessary to enter bids, that accordingly more favorable terms can be obtained with a negotiated sale, and that a larger distribution in California can be expected with a negotiated sale of the shares of stock to California underwriters. It presented testimony showing that at present about 38% of its outstanding shares of stock, of all classes, is held in this state, but that the proportion so held is increasing and that it feels it is in its interest to encourage additional holdings in California.

A preliminary order will be entered at this time authorizing the issue and sale of the shares of stock, as proposed, and exempting the same from the competitive bidding rule. At a later date, applicant will file with the Commission for its approval an appropriate supplemental application setting forth the terms and conditions under which it proposes to sell such shares of stock. Upon receipt of such supplemental application, the Commission will give further consideration to this matter.

O R D E R

A public hearing having been had on the above entitled matter, the Commission having considered the evidence submitted and being of the opinion that the money, property or labor to be procured or paid for through the issue and sale of 180,000 shares of common stock is reasonably required by California Electric Power Company for the purposes specified herein, that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that the application should be granted, subject to the provisions of this order; therefore,

IT IS HEREBY ORDERED as follows:

1. The issue and sale of 180,000 shares of common stock by California Electric Power Company, provided it obtains for said shares a price satisfactory to the Commission, is hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946.
2. California Electric Power Company, after the effective date hereof and on or before July 31, 1950, may issue and sell said 180,000 shares of common stock at a price to be fixed by the Commission in a supplemental order in this proceeding.
3. The authority herein granted to issue and sell said 180,000 shares of common stock will become effective when the Commission by said supplemental order has fixed the price at which said shares may be sold. All other authority granted by this order is effective upon the date hereof.
4. California Electric Power Company shall use the proceeds to be received through the issue and sale of said shares of

common stock to finance in part its estimated construction expenditures referred to in this proceeding and to pay expenses incident to the issue and sale.

5. Within ninety (90) days after the issue and sale of said shares of stock, California Electric Power Company shall file with the Commission two (2) copies of its prospectus and a report showing the names of those to whom said shares were sold, the number of shares sold to each, the consideration received, the expenses incident to the issue and the account, or accounts, to which such expenses were charged.

Dated at San Francisco, California, this 25<sup>th</sup> day of April, 1950.

R. Z. [Signature]  
Justus F. Casner  
[Signature]  
Harold P. Kula  
Kenneth P. [Signature]  
Commissioners