

Decision No. 44762

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
CALIFORNIA ELECTRIC POWER COMPANY)	
under Section 52 of the Public)	Application
Utilities Act.)	No. 31713
-----)	

Donald J. Carman and Fred Oldendorf, Jr.,
for applicant; O'Melveny & Myers, by James C. Greene, for the prospective purchaser.

O P I N I O N

In this application, California Electric Power Company seeks an order exempting from competitive bidding a proposed issue of 40,000 shares of \$2.50 Sinking Fund Cumulative Preferred Stock of the par value of \$50 each, and of the aggregate par value of \$2,000,000, and authorizing it to issue and sell said shares at par.

The purpose of the proposed issue is to finance in part the cost of a new 60,000-kilowatt steam plant to be built in the vicinity of the City of San Bernardino. It appears from applicant's latest annual report on file with the Commission that it obtains electric energy from ten hydroelectric plants it owns and operates, from a steam plant located at San Bernardino, and from two internal combustion plants, as well as from hydroelectric facilities owned by the United States at Hoover Dam, and, that in addition it purchases energy primarily from Southern California Edison Company and the Department of Water and Power of the City of Los Angeles. It is reported that the additional energy from the proposed new plant will be required by applicant to meet increased service demands resulting from ordinary load growth and expanding military installations and

also to offset reductions in the amount of power which will be available from Hoover Dam and from the City of Los Angeles.

The estimated cost of the new plant is reported at \$8,080,845, segregated as follows:

Land and rights	\$ 25,000
Structures and improvements	446,302
Boiler plant equipment	2,227,072
Turbo-generator units	2,652,914
Accessory electric equipment	673,427
Miscellaneous power plant equipment	55,693
Field costs, including soil bearing tests, permits and temporary roads, moving equipment and personnel, temporary construction buildings and utilities, field office salaries and supplies	354,100
Office costs, including engineering, drafting and specification writing, general office salaries, telephone and telegraph, insurance	336,700
Contractor's charges, including fee, indirect office costs, and use of construction equipment	705,474
Sales tax	145,800
Total contract cost	\$7,622,482
Overhead charges	228,674
Interest during construction	229,689
Total cost	<u>\$8,080,845</u>

It appears that applicant proposes to issue and sell \$4,000,000 of bonds, \$2,000,000 of debentures, and the \$2,000,000 par value of stock covered by the present application, to finance the estimated cost of the new plant. Applicant expects to comply with the Commission's competitive bidding requirements insofar as the bonds and debentures are concerned, and hereafter will file an application for permission to issue them. At this time it intends to proceed with the issue and sale of the shares of preferred stock. It reports that such shares will have a dividend rate equal to 5% of the par value per year, or \$2.50 a share, and will enjoy preferences and rights substantially similar to those of applicant's presently outstanding shares of stock with the addition, however, of a sinking fund of 3% per year of the initial issue, commencing the third year

after the issue of the new shares of stock, to provide for their payment.

Applicant desires to sell the new shares of stock on a negotiated basis. In this connection, the record shows that applicant's officers are of the opinion that a better price can be obtained if said shares are sold on such a basis rather than at competitive bidding. The testimony shows that discussions have been had with representatives of four investment banking firms looking toward the private placement of the shares of stock with a small group of insurance companies, which discussions indicate to applicant that it can dispose of its shares of stock at par, less a finder's fee of 1% and the payment of fees and expenses of counsel for the purchaser. It appears that a sale on this basis would relieve applicant of the expense incident to registering the issue with the Securities and Exchange Commission.

Applicant points out that on an earlier occasion, in 1947, it failed to receive bids for a proposed issue of shares of preferred stock, and that it now hesitates to take the risk of receiving no bids or receiving unsatisfactory bids, should it offer its shares for sale at competitive bidding. Applicant asserts that the proposed issue is relatively small and not well known among institutional buyers, and it feels that the issue would not have a broad interest among banking firms. Applicant is of the opinion that the uncertainties which might surround a sale at competitive bidding can be overcome through negotiation, and the financing of its proposed plant more reasonably assured.

The record in this proceeding warrants the Commission to make an order exempting the issue of the shares of preferred stock from its competitive bidding rule and authorizing the issue and sale as requested.

O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the record in the proceeding and being of the opinion that the application should be granted, as herein provided; that the money, property or labor to be procured or paid for through the issue and sale of the stock herein authorized is reasonably required by applicant for the purposes specified herein; and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. The issue and sale of 40,000 shares of \$2.50 Sinking Fund Cumulative Preferred Stock, of the par value of \$50 each, by California Electric Power Company hereby is 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 December 31, 1950, may issue and sell said 40,000 shares of stock at not less than \$50 a share, and use the proceeds to pay the finder's fee and other expenses incident to the issue and sale of said shares, and to finance in part the cost of constructing the new steam plant referred to in this proceeding.
3. Within thirty (30) days after the issue and sale of said shares of stock, California Electric Power Company shall file with the Commission 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 sale, and the account, or accounts, to which such expenses were charged, and a

copy of the stock purchase agreement.

4. The authority herein granted to issue and sell said shares of stock will become effective when applicant has filed with the Commission a certified copy of the resolution of its board of directors creating the new series of \$2.50 Sinking Fund Cumulative Preferred Stock. In other respects the order is effective upon the date hereof.

Dated at San Francisco, California, this 11th day of September, 1950.

R. Z. [Signature]
Justice J. [Signature]
[Signature]

Commissioners