

ORIGINAL

Decision No. 47689

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of	)	
California Electric Power Company	:	
for Authority to Issue and Sell	)	
350,000 Shares of Common Stock, Par	:	Application
Value \$1 Per Share, and for Exemption	)	No. 33633
from the Commission's Competitive	:	
Bidding Rules Established in	)	
Decision No. 38614.	:	
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Donald J. Carman and Fred Oldendorf, Jr.,  
 for applicant; O'Melveny & Myers, by James C. Greene,  
 for the prospective purchasers of  
 applicant's shares of stock.

O P I N I O N

In this application, filed on August 4, 1952, California Electric Power Company requested authorization to issue and sell 350,000 shares of its common stock, of the par value of \$1.00 each, by means of a negotiated underwriting, for the purpose of retiring outstanding shares of convertible preference stock and of paying short-term bank loans. However, in an amendment filed on September 5, 1952, applicant reports that it intends to offer said shares for sale at competitive bidding.

A public hearing was held on the original application on August 25, 1952. This decision will consider both the original and the amendment.

Applicant is a Delaware corporation engaged principally in the business of supplying electric energy in portions of the counties of Mono, Inyo, Kern, San Bernardino and Riverside in the State of California, and in the counties of Nye and Esmeralda in the State of Nevada. As of June 30, 1952, it reports its investment in utility

plant, after deducting reserves for depreciation and amortization, at \$50,078,935 and in other physical properties and in securities of associated companies, after deducting the related reserves, at \$9,566,894. It appears that it has financed its investment through the issue of long-term debt and shares of preferred stock and preference stock and equity capital. Its structure as of June 30, 1952, is reported as follows:

	<u>Amount</u>	<u>Total</u>	<u>% of Total</u>
First Mortgage Bonds:			
3%, due 1976	\$16,000,000		
3%, due 1978	5,500,000		
2-7/8%, due 1980	<u>6,000,000</u>	\$27,500,000	49.9%
Debentures, 3%, due 1960	2,000,000		
Installment Contracts	<u>14,825</u>	<u>2,014,825</u>	<u>3.6%</u>
Total Debt		\$29,514,825	53.5%
Preferred Stock (par \$50):			
\$3.00 Series	5,248,150		
\$2.50 Series	3,000,000		
\$2.50 Sinking Fund Series	<u>2,000,000</u>	10,248,150	18.6%
Convertible Preference Stock (par \$20):			
5-1/2% Series	974,540		
5.60% Series	<u>1,020,500</u>	1,995,040	3.6%
Common Equity:			
Common Stock (1,746,599 shares)	10,416,403		
Capital Surplus	530,762		
Earned Surplus	<u>2,441,944</u>	<u>13,389,109</u>	<u>24.3%</u>
Totals		<u>\$55,147,124</u>	<u>100.0%</u>

In addition, applicant has issued short-term promissory notes to Bank of America in the aggregate amount of \$5,800,000 outstanding as of June 30, 1952.

In order to improve and simplify its capital structure, applicant now desires to retire or convert its shares of preference stock into common stock and it reports that it is contemplating calling said shares for payment at their call price of par plus a premium of \$1.00 a share plus accrued dividends. It is of the opinion that

such call, if made, will induce a large number of conversions, thereby increasing the equity position and reducing the cash requirements for payment of any shares not converted by their holders into common stock. It seeks authorization to use proceeds from the sale of its common shares, to the extent required, to retire any shares of preference stock which are not surrendered for conversion, if it proceeds with the plans for calling such shares, and to apply the proceeds not used for this purpose to pay in part its outstanding short-term bank loans. It appears that the funds originally received through such short-term borrowings were used for financing the new steam electric generating plant near San Bernardino and for additions, betterments and improvements of its properties and those of its wholly-owned subsidiary, Interstate Telegraph Company.

The record shows that applicant is faced with a continuing program of expansion. It estimates the cash needed during 1952 and 1953, to pay bank loans outstanding at the beginning of the period and to provide for new construction for its electric system, for the telephone system of its subsidiary and for its nonoperative facilities, in the amount of approximately \$21,891,000. Of this amount, it appears that approximately \$5,200,000 should be obtained from internal funds, leaving new money requirements of more than \$16,600,000. With substantial conversions of preference stock, applicant estimates the sale of the additional shares of common stock will provide about \$3,000,000 in new money and it reports it expects to obtain approximately \$10,000,000 through additional securities, principally bonds, to be sold in the early part of 1953, leaving a remainder of approximately \$3,600,000 to be obtained by short-term bank loans or other means during the latter part of next year.

Assuming full conversion of the preference stock and the sale of the additional common shares to net \$3,000,000, applicant's

capital structure at the conclusion of its present transaction would include bonds in the amount of 47% of the total, other debt 4%, preferred stock 17%, and equity capital of 32%. The improvement of the equity position from approximately 24% as of June 30, 1952, thus broadens the base supporting the debt capital and should facilitate the sale of bonds at reasonable prices in the future.

A review of this matter indicates that applicant will have need for the proceeds from the sale of its shares of stock for the purposes indicated. Accordingly, an order will be entered authorizing the issue and sale of the same at a price hereafter to be fixed in a supplemental order in this proceeding upon the filing by applicant of additional information showing the results of its invitation for bids for the purchase of said shares.

#### O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence 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 by the issue of the shares of 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. California Electric Power Company may publish invitations for bids for the purchase of 350,000 shares of its common stock not less than six (6) days prior to the date to be set for the opening of said bids.
2. California Electric Power Company, after the effective

date hereof and on or before December 31, 1952, may issue and sell said 350,000 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 350,000 shares of common stock will become effective when the Commission 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 the cost of retiring outstanding shares of preference stock and to pay bank loans. The premiums to be paid upon retiring shares of preference stock shall be provided from some source other than the sale of shares of common stock.

5. Within ninety (90) days after the issue and sale of said shares of common 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. As soon as available, applicant shall file with the Commission a report showing the purposes for which the proceeds were disbursed.

Dated at San Francisco, California, this 16<sup>th</sup> day of September, 1952.

R. J. [Signature]  
President  
James F. [Signature]  
Harold [Signature]  
[Signature]