

ORIGINAL

Decision No. 48523

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
CALIFORNIA-PACIFIC UTILITIES COMPANY,	:	
a corporation, for an order authorizing)	
applicant to issue and sell (a) 50,000	:	
shares of a new series of its Preferred)	Application
Shares, \$20 par value, and (b) an	:	No. 34242
indeterminable number of its Common)	
Shares, \$10 par value, issuable on the	:	
conversion of such Preferred Shares.)	
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OPINION

In this application California-Pacific Utilities Company seeks a preliminary order from the Commission approving a proposed issue of 50,000 shares of a new series of preferred stock convertible into common stock, and the issue of shares of common stock, when and as required, upon surrender of said shares of preferred stock for conversion.

Applicant is a California corporation engaged as a public utility in the electric, gas, water and telephone business in various parts of California, in the electric and gas business in Oregon, in the electric, gas, water and telephone business in Nevada, and in the electric business in Idaho and Wyoming, and, in addition, in the sale of butane-propane gas in Oregon and California.^{1/} Its articles of incorporation, as amended, provide for an authorized issue of 758,060 shares of stock, divided into preferred shares, issuable in series, of the par value of \$20 each, and common shares of the par value of \$10 each. The authorized shares and the amounts outstanding as of February 28, 1953, are reported as follows:

^{1/} Applicant's 1952 annual report shows total operating revenues for the year in the amount of \$5,433,194, of which \$1,752,666, or 32%, represents revenues from California operations.

	Authorized Shares	Outstanding	
		Shares	Amount
Preferred-\$20 par value -			
5% convertible	100,000	71,750	\$1,435,000
5½% convertible	8,060	8,060	161,200
% convertible (new series)	50,000	-	-
Unclassified	100,000	-	-
Subtotal	258,060	79,810	\$1,596,200
Common-\$10 par value	500,000	228,162	2,281,620
Total	758,060	307,972	\$3,877,820

The holders of the preferred shares are entitled to two votes for each share held and the holders of common shares to one vote for each share.

It appears that applicant has need for additional funds in order to reimburse its treasury, to pay bank loans and to finance capital expenditures and that it proposes to obtain a portion of such funds through the issue of shares of preferred stock. Applicant reports that after a review of market conditions it is of the opinion that it cannot sell any shares of preferred stock unless the same are convertible into common shares, and that for this reason it has entered into negotiations with a group of underwriters for the sale of 50,000 shares of a new series of preferred stock, with conversion privileges, at a price of \$930,000, plus accrued dividends.^{2/} While it is contemplated that the dividend rate will be within a range of 5.25% to 5.6%, applicant reports that the rate, the conversion basis, the redemption prices and the voluntary liquidation preferences cannot be determined until shortly before the public offering. Consequently, it requests the Commission to make a preliminary order at this time approving its general proposal and to enter a final order at a later date upon the filing of additional information with the Commission with respect to the terms of the new series of preferred shares.

^{2/} The application shows that during March, 1953, applicant's 5% preferred shares were quoted at 17½ bid, 18 asked, and its 5½% convertible preferred shares at 29½ bid.

In support of its request to issue additional securities, applicant has furnished information showing that during the period from January 1, 1948, to December 31, 1952, its net additions to utility properties aggregated \$5,499,474, that during the same period it acquired utility plants previously operated by others at a total cost of \$1,011,717, and that it made net additions to non-utility plant in the amount of \$534,146. It reports that its program temporarily was financed in part by short-term borrowings under a \$2,000,000 line of credit from Bank of America National Trust and Savings Association, and that presently its outstanding bank loans amount to \$900,000, which amount, however, may be increased prior to the delivery of the shares of stock covered by this application. It seeks authorization, accordingly, to apply the net proceeds from the sale of its shares of stock to reduce its bank indebtedness and to place the balance, if any, in its treasury to be used to pay in part its expansion program now in progress. In this connection, it estimates that during the year 1953 its program will call for the expenditure of \$83,700 for nonutility plant and \$2,228,613 for utility plant, the latter amount being segregated as follows:

Electric	\$1,241,817
Gas	371,975
Water	104,785
Telephone	394,536
Common	<u>115,500</u>
Total	<u>\$2,228,613</u>

Information filed in this proceeding indicates that applicant will have approximately \$400,000 available from internal sources during the year to meet its capital requirements and that presently it is contemplating the issue of a new series of bonds late in 1953 in the principal amount of \$1,500,000 to complete its financing.

Applicant's financial position as reflected by its balance sheet of February 28, 1953, is as follows:

<u>Assets</u>	
Utility plant -	
Original cost	\$16,590,790
Less -	
Acquisition adjustment	(54,427)
Reserve for depreciation	(3,671,947)
Remainder	\$12,864,416
Other physical property	635,548
Current assets -	
Cash	683,979
Other current assets	<u>1,388,180</u>
Total current assets	2,072,159
Deferred charges	<u>93,175</u>
Total	<u>\$15,665,298</u>

<u>Liabilities</u>	
Long-term debt -	
First mortgage bonds-	
Series A, 3 $\frac{1}{2}$'s, due 1969	\$ 1,830,000
Series B, 3 $\frac{1}{2}$'s, due 1971	1,670,000
Series C, 3 $\frac{1}{2}$'s, due 1978	750,000
Series D, 3 $\frac{1}{2}$'s, due 1980	975,000
Subtotal	<u>5,225,000</u>
Notes, 4%-4 $\frac{1}{2}$ %, due 1969	167,500
Debentures, 4 $\frac{1}{2}$'s, due 1972	<u>1,900,000</u>
Total long-term debt	\$ 7,292,500
Current liabilities -	
Notes payable to bank	900,000
Other current liabilities	<u>1,346,415</u>
Total current liabilities	2,246,415
Deferred credits	164,702
Contributions in aid of construction	89,178
Preferred stock	1,596,200
Common stock equity -	
Common stock	2,281,620
Premiums	585,963
Retained earnings	<u>1,403,720</u>
Total common stock equity	<u>4,276,303</u>
Total	<u>\$15,665,298</u>

The foregoing statement shows that applicant has financed itself through the issue of bonds, notes, debentures and shares of preferred and common stock and the application of earnings from operations. Its capital ratios as of February 28, 1953, and as adjusted to give effect to the issue of the shares of stock covered by this application are as follows:

	<u>Feb. 28, 1953</u>	<u>Pro Forma</u>
Bonds	39.69%	37.11%
Notes	1.27	1.19
Debentures	<u>14.43</u>	<u>13.49</u>
Subtotal	55.39	51.79
Preferred stock	12.13	18.44
Common stock and surplus	<u>32.48</u>	<u>29.77</u>
Total	<u>100.00%</u>	<u>100.00%</u>

During 1950 applicant's operating revenues amounted to \$4,329,511, during 1951 to \$4,561,217 and during 1952 to \$5,433,194. Its net income during 1952 after payment of bond and debenture interest amounted to \$504,209. Assuming the entire new block of 50,000 shares of preferred stock outstanding throughout the year, with the dividend rate thereon at 5½%, applicant reports that the total annual dividend requirements for all preferred shares, including those presently proposed to be issued, but assuming no conversion of the present convertible shares, would be \$135,616.

In reviewing this matter it appears to us that applicant will have need for additional funds from external sources to enable it to meet its current liabilities and to proceed with its construction program, that the issue of preferred stock at this time is desirable to improve applicant's capital ratios, and that its earnings should be ample to meet the dividend requirements in connection with such issue. We have no objection to applicant's proposal to issue shares of preferred stock with a convertible feature.

Accordingly, we will enter a preliminary order at this time in line with applicant's request. Upon the filing by applicant of a supplemental application setting forth the terms of the proposed new series of preferred shares, and the sale and offering price of such shares, we will give consideration to issuing a final order fixing the price of said shares of preferred stock and

authorizing the issue of shares of common stock upon conversion.

O R D E R

The Commission having considered the above entitled matter, and being of the opinion that a public hearing is not necessary; 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-Pacific Utilities Company may issue and sell, on or before December 31, 1953, not exceeding 50,000 shares of its convertible preferred stock, \$20 par value, for the purposes set forth in this application, provided, however, that the authority herein granted will not become effective until the Commission by a supplemental order has fixed the price at which said shares may be sold.

Dated at San Francisco, California, this 28th day of April, 1953.

[Signature]
President

[Signature]

[Signature]

[Signature]

Commissioners