

ORIGINAL

Decision No. 49875

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CALIFORNIA-PACIFIC UTILITIES COMPANY)
for an order authorizing it (a) to)
issue and sell \$2,000,000 principal)
amount of its First Mortgage Bonds,)
Series E, 4%, due January 1, 1984 and)
(b) to execute a Sixth Supplemental)
Indenture to be dated as of March 1,)
1954, supplemental to its First)
Mortgage Indenture dated as of July 1,)
1944.)
-----)

Application
No. 35242

Orrick, Dahlquist, Herrington & Sutcliffe,
by T. W. Dahlquist and W. G. Olson, for
applicant.

O P I N I O N

California-Pacific Utilities Company has filed this application for authorization to issue and sell \$2,000,000 in principal amount of its First Mortgage Bonds, Series E, 4%, due January 1, 1984, for the purpose of reimbursing its treasury, paying indebtedness and financing construction costs.

The application was filed with the Commission on March 12, 1954. Thereafter, a public hearing was held before Examiner Coleman in San Francisco on March 31, 1954, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant is a California corporation engaged in operating public utility electric, gas, water and telephone systems in various parts of California and Nevada, electric and gas systems in Oregon,

and electric systems in Idaho and Wyoming, and in conducting non-utility operations in the distribution of butane-propane gas in California and Oregon. It has reported operating revenues from its utility operations at \$5,433,194 during 1952 and at \$6,131,827 during 1953, with net income of \$538,153 during the first of these two years and of \$595,101 during the second. It has reported its assets and liabilities as of December 31, 1953, as follows:

<u>Assets</u>		
Utility plant -		
Total amount	\$17,827,096	
Reserves for depreciation	<u>4,043,971</u>	
Net utility plant		\$13,783,125
Other physical property		856,517
Current assets -		
Cash	627,553	
Accounts receivable	572,804	
Materials and supplies	612,948	
Prepayments	176,601	
Other current assets	<u>36,045</u>	
Total current assets		2,025,951
Deferred charges		<u>121,684</u>
Total		<u>\$16,787,277</u>
<u>Liabilities</u>		
Long-term debt -		
Bonds	\$ 5,225,000	
Debentures	1,800,000	
Mortgage notes	<u>163,000</u>	
Total long-term debt		\$ 7,188,000
Current liabilities -		
Notes payable to banks	1,100,000	
Other current liabilities	<u>1,339,872</u>	
Total current liabilities		2,439,872
Deferred credits		232,627
Contributions in aid of construction		89,178
Preferred stock		2,558,120
Common stock equity -		
Common stock	2,301,530	
Surplus items	<u>1,977,950</u>	
Total common stock equity		<u>4,279,480</u>
Total		<u>\$16,787,277</u>

Applicant reports that there are now pending certain proceedings initiated by the Union County Public Utilities District to condemn a portion of its electric utility properties in Oregon.

The United States District Court has awarded applicant compensation in the amount of \$3,580,405 for these properties and it is reported that the matter will be submitted to the voters of the district at an early date. It appears that approximately 17% of applicant's electric revenues and approximately 11% of its total operating revenues for 1953 were obtained from the properties involved in these proceedings.

As will be seen from the preceding balance sheet, applicant has financed itself in part through the issue of bonds, debentures and other long-term debt and through the issue of shares of preferred and common stock. It has also engaged in short-term financing and since December 31, 1953, has increased its indebtedness represented by notes payable to banks from \$1,100,000 to \$1,500,000.

The balance sheet indicates that applicant does not have sufficient cash on hand to liquidate its outstanding short-term notes. If authorized by the Commission to issue and sell its bonds, applicant proposes to use \$1,500,000 of the net proceeds to pay such indebtedness and to apply the remaining proceeds to reimburse its treasury and to finance capital requirements. It reports, among other things, that it is faced with construction costs during 1954 in the amount of \$2,432,500, segregated as follows:

Electric	\$1,066,670
Gas	493,220
Water	68,325
Telephone	697,480
General and common	<u>106,805</u>
Total	<u>\$2,432,500</u>

The proposed expenditures include an allowance of \$275,000 for converting the Colusa telephone operations to dial. The remainder of the proposed expenditures, according to the testimony, will

be required for plant expansion to meet demands for service. In this connection it is noted that applicant's business has been increasing rapidly. Its annual reports to the Commission show that the total number of customers has increased from 44,726 at the end of 1951 to 52,600 at the end of 1952 and to 56,238 at the end of 1953.

It is estimated by applicant that it should realize approximately \$800,000 during 1954 from internal sources, which would be available for construction purposes, and that it will be required to resort to additional external financing later in the year to complete its program. Its capital ratios as of the end of 1953 and as adjusted to give effect to the proposed bond issue are as follows:

	<u>Dec. 31, 1953</u>	<u>Pro Forma</u>
Bonds	37%	45%
Other long-term debt	<u>14</u>	<u>12</u>
Total long-term debt	51	57
Preferred stock	18	16
Common stock equity	<u>31</u>	<u>27</u>
Totals	<u>100%</u>	<u>100%</u>

Subject to receiving authorization from the Commission, applicant proposes to sell the \$2,000,000 of bonds covered by this application to John Hancock Mutual Life Insurance Company, at their face value plus accrued interest, and accordingly it seeks exemption from the Commission's competitive bidding rule. In support of its request for exemption, and also in support of the proposed terms of the bonds, applicant presented testimony showing that it had caused a survey to be made of the market for bonds of public utilities comparable with it. Various institutional and other investors were approached in connection with the proposed sale of the bonds but no offers were obtained at an annual interest cost of less than 4%. It appears that resistance was encountered on the part of the buyers to the purchase of applicant's bonds by reason of the pending

condemnation of a portion of applicant's properties in Oregon. While the proposed rate is higher than the going interest rate for prime bonds, it clearly appears from the testimony that applicant has endeavored to obtain more favorable terms but that under the circumstances surrounding its operations at present it has been unable to do so.

Applicant presently has outstanding bonds of four series, of which one series was disposed of by means of a competitive underwriting and three by means of private placements. On the basis of its experience applicant has concluded that it will save approximately \$30,000 in registration expenses by disposing of the proposed issue by a private placement and it asserts that it is to its advantage to have the bonds held by a single institution rather than being distributed widely so that, if necessary, it can more readily obtain from the bondholders the consents to amendments to its mortgage indenture which may be necessary from time to time. It is of the opinion that if the condemnation proceedings in Oregon are carried to completion, it may be required to seek a further amendment to its indenture with respect to the disposition of the proceeds from the sale of its properties and it desires to be in a position where it can obtain authorization for such amendment without much difficulty.

On the basis of the record developed in this particular proceeding, it appears that applicant will have need for additional funds from the issue and sale of its bonds and that an order is warranted approving the sale under the terms proposed and exempting such sale from competitive bidding.

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 and sale of the bonds herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes, except as otherwise authorized, 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 by California-Pacific Utilities Company of \$2,000,000 in principal amount of its First Mortgage Bonds, Series E, 4%, due January 1, 1984, hereby is exempted from the Commission's competitive bidding rule.
2. California-Pacific Utilities Company, on and after the effective date hereof and on or before July 31, 1954, may execute a Sixth Supplemental Indenture in, or substantially in, the same form as that filed in this proceeding as Exhibit C, and may issue and sell said \$2,000,000 of bonds at a price of 100% of the principal amount thereof, plus accrued interest, for the purposes set forth in this application. The accrued interest from the sale of the bonds may be used for such purposes or for general corporate purposes.
3. Within 60 days after the issue and sale of the bonds herein authorized, applicant shall file with the Commission a statement showing the date of such issue and sale, the total amount received and the purposes for which the proceeds were used. Within

six months after the date of issue and sale, applicant shall file a statement showing in some detail the expenses incident to the issue and sale and the account, or accounts, to which such expenses were charged.

4. The authority herein granted will become effective when California-Pacific Utilities Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,500.00.

Dated at San Francisco, California, this 6th day of April, 1954.

[Handwritten Signature]
President

[Handwritten Signature]
[Handwritten Signature]
[Handwritten Signature]

Commissioners

Commissioner KENNETH POTTER, being necessarily absent, did not participate in the disposition of this proceeding.

