

Decision No. 51261

**ORIGINAL**

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	)	
it to issue and sell (a) 50,000 5%	:	Application
Cumulative Convertible Preferred Shares,	)	No. 36799
\$20 par value, and (b) an indeterminable	:	
number of its Common Shares, \$10 par	)	
value, issuable upon conversion of such	:	
Preferred Shares.	)	
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O P I N I O N

California-Pacific Utilities Company has filed this application for authorization to issue and sell 50,000 shares of its 5% cumulative convertible preferred stock of the par value of \$20 each and of the aggregate par value of \$1,000,000.

The purpose of the proposed financing is to provide applicant with funds to reimburse its treasury and to permit it to liquidate short-term bank loans and to proceed with its construction program. Applicant reports that in carrying on its construction program it became indebted to Bank of America National Trust and Savings Association in the amount of \$900,000 represented by a 3-3/4% note due March 31, 1955, that such indebtedness may increase before the issue and sale of the preferred shares, and that during 1955 it will be faced with additional expenditures for construction and expansion in the amount of \$2,564,063. It asserts that the extent to which additional funds will be required cannot be determined at this time but that it will obtain such funds, when needed, from its own resources, from borrowings, and from the sale of

securities. Presently it is contemplating the sale of \$1,500,000 of debentures later in 1955 or early in 1956.

Applicant is engaged as a public utility in the electric, gas, water and telephone business in California, in the electric, gas and telephone business in Oregon, in the electric, gas, water and telephone business in Nevada, in the electric business in Idaho and Wyoming, and in the nonutility sale of butane-propane gas in Oregon and California. <sup>1/</sup> According to information filed with the Commission its net investment in utility plant amounted to \$15,331,781 and in nonutility plant to \$724,264, at the close of 1954, a total of \$16,056,045. It has been its practice to finance itself temporarily, in part, under a line of credit with Bank of America National Trust and Savings Association and, from time to time, to liquidate its borrowings with other securities. Its capital ratios, exclusive of short-term loans, on December 31, 1954, were as follows:

First mortgage bonds		\$ 7,225,000	45%
Debentures		1,700,000	11
Preferred stock -			
5%	\$1,435,000		
5½% convertible	119,480		
5.4% convertible	<u>754,280</u>		
Total preferred		2,308,760	14
Equity capital -			
Common stock (241,554 shares)	2,415,540		
Surplus items	<u>2,286,281</u>		
Total equity capital		<u>4,701,821</u>	<u>30</u>
	Totals	<u>\$15,935,581</u>	<u>100%</u>

<sup>1/</sup> For 1954 applicant reported total operating revenues of \$6,625,822, of which 29.7% were obtained in the Benicia, Colusa, Lassen, Weaverville, Shasta and Needles Divisions, 52.5% in the Oregon Divisions and 17.8% in other divisions.

The outstanding mortgage bonds consist of five series with interest rates ranging from 3-1/4% to 4% and with maturity dates extending from 1969 to 1984. The debentures consist of a 4-1/4% issue due in 1972. Applicant has paid dividends on its outstanding common shares of \$1.40 in 1953 and \$1.42 $\frac{1}{2}$  in 1954.

Applicant now proposes to create a new series of preferred stock and, upon receiving authorization from the Commission, to sell 50,000 shares of such new series under negotiated arrangements. The new shares will be entitled to annual dividends at the rate of 5%, cumulative as to the initial issue of 50,000 shares from March 15, 1955, and will be convertible at any time on or before April 1, 1965, at an initial conversion basis of two-thirds of one common share for each share of new preferred stock. The shares will be redeemable at \$21 each on or before April 1, 1960, and thereafter and on or before April 1, 1965, at \$20.75, and thereafter at \$20.50 a share, plus in each case all accrued and unpaid dividends to the redemption date.

It appears that applicant has canvassed the market for preferred stock and has arrived at the conclusion that it cannot sell preferred shares unless the same are convertible into common shares and that, even with this feature, it will not be able to sell its new shares at a price equal to their par value. It has entered into negotiations with First California Company for the sale of its new shares but at this time is unable to state the price at which they will be sold, although it is contemplated such price will be approximately \$18.95 a share. It reports that its board of directors has ordered a transfer from retained earnings to stated capital of an amount equal to the discount from par on the sale of the new shares and that it will charge against its retained

earnings the expenses it will incur in connection with the issue.

Financial statements filed with the application show, as of December 31, 1954, current assets of \$2,450,613, including cash of \$1,015,412, and current liabilities of \$2,320,070. The statements further show gross income available for fixed charges of \$881,020 in 1953 and of \$943,088 in 1954, as contrasted with estimated charges during the coming year of \$329,929 for bond and debenture interest and \$155,858 for preferred stock dividends, including dividends for a full year on the shares proposed to be issued and assuming no conversions into common shares.

Applicant's balance sheet indicates that it does not have sufficient funds on hand to proceed with its construction activities and to liquidate its bank borrowings, without depleting its working cash. Its earnings, on the basis of its reported income statements, should be ample to service the new shares and it appears to us that the issue of such shares will improve its capital ratios and ultimately, through the operation of the conversion feature, should result in an increase in the equity position, thereby creating a broader base in the capital structure to support future debt financing.

However, applicant has not completed its arrangements for the sale of its preferred shares and we will enter only a preliminary order at this time with respect to such shares. Upon the filing by applicant of a supplemental application setting forth the proposed price of the shares and the terms of the sale we will give further consideration to the transaction.

The order herein will authorize the issue of common shares from time to time in exchange for such preferred shares as may be surrendered for 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 and sale 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 not exceeding 50,000 shares of its 5% cumulative convertible preferred stock at a price hereafter to be fixed by the Commission.

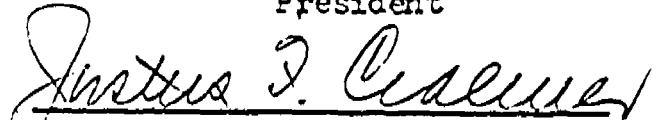
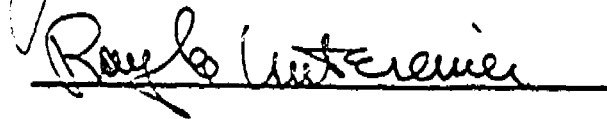
2. California-Pacific Utilities Company, from time to time, may issue, as fully paid, such number of its common shares as shall be required to be issued upon conversion of all or any part of said 5% cumulative convertible preferred shares, in accordance with the conversion rights.

3. California-Pacific Utilities Company shall use the proceeds from the sale of its shares of preferred stock herein authorized for the purposes set forth in this application.

4. The authority herein granted will become effective when the Commission by a supplemental order has fixed the price at which California-Pacific Utilities Company may issue and sell said shares of preferred stock.

Dated at San Francisco, California, this 29th day of March, 1955.

  
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President

  
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Commissioners