

Decision No. 51780

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of
California Electric Power Company
for Authority to Issue and Sell
230,000 Shares of Common Stock.

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) Application
No. 37138
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In the Matter of Application of
California Electric Power Company
for Authority to Issue and Sell
\$6,000,000 Principal Amount First
Mortgage Bonds, _____% Series Due
1985.

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) Application
No. 37154
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O P I N I O N

In these proceedings California Electric Power Company seeks authorization to issue and sell 230,000 shares of its common stock of the par value of \$1 each and \$6,000,000 in principal amount of a new series of first mortgage bonds, and to execute a supplemental indenture which defines the terms of such new bonds, for the purpose of refinancing outstanding indebtedness.

Applicant is engaged primarily in the business of supplying electric energy to members of the public 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, about 98% of its electric revenues arising from operations in California. In addition, it manufactures and sells ice in certain sections of Imperial County and Riverside County for the refrigeration of perishable crops, and it owns all the outstanding stock of certain Mexican subsidiaries including Industrial Electrica Mexicana, S.A., which distributes electric energy in portions of Lower California and Sonora. A summary consolidated statement of its

revenues and income for the periods indicated is as follows:

	Years Ended		
	<u>Dec. 31, 1953</u>	<u>Dec. 31, 1954</u>	<u>May 31, 1955</u>
Operating revenues	\$17,598,498	\$17,050,542	\$17,323,814
Other income	281,125	221,239	199,293
Total	<u>17,879,623</u>	<u>17,271,781</u>	<u>17,523,107</u>
Net income	\$ 2,651,211	\$ 2,469,270	\$ 2,632,372

The decline in revenues during 1954 reflects the sale in the early part of that year of the telephone business and properties of Interstate Telegraph Company, formerly a wholly-owned utility operating company.

A condensed statement of applicant's consolidated balance sheet as of May 31, 1955, is as follows:

Assets

Investment in properties, less depreciation reserve		\$73,279,154
Other investments		2,505,005
Current assets -		
Cash and deposits	\$ 1,308,535	
Accounts receivable	2,145,585	
Materials and supplies	1,446,591	
Prepaid expenses	<u>349,040</u>	
Total current assets		5,249,751
Deferred charges		<u>84,287</u>
Total		<u>\$81,118,197</u>

Liabilities and Capital

Long-term debt		\$36,750,000
Current liabilities -		
Unsecured bank loans	\$ 7,000,000	
Accounts payable	902,937	
Accrued liabilities	1,850,546	
Other current liabilities	<u>405,855</u>	
Total current liabilities		10,159,338
Deferred credits		1,037,833
Reserves		573,437
Contributions		861,308
Preferred stock		8,217,300
Common stock equity -		
Common stock (2,668,934 shares)	19,505,314	
Surplus	<u>4,013,667</u>	
Total common stock equity		<u>23,518,981</u>
Total		<u>\$81,118,197</u>

Applicant's presently outstanding long-term debt consists of \$35,500,000 of first mortgage bonds, maturing from 1976 to 1984 and bearing interest at rates ranging from 2-7/8% to 3-1/4%, and \$1,250,000 of 3% debentures due 1960.^{1/} Its preferred stock consists of \$5,217,300 of its \$3 series and \$3,000,000 of its \$2.50 series, and its common stock consists of 2,668,934 shares, excluding 1,066 shares owned by a subsidiary, of the par value of \$1 each and a book value, on the basis of the balance sheet figures, of \$8.80. For a number of years applicant has paid quarterly dividends of 15 cents a share on its outstanding common stock but on July 7, 1955, the board of directors voted a quarterly dividend of 17-1/2 cents a share, payable September 1, 1955.^{2/} The reported ranges in the market price of the outstanding common stock on the American Stock Exchange have been as follows:

1950 - 7	to 9-1/4	1953 - 8-7/8	to 10-3/4
1951 - 7	to 8-1/4	1954 - 10	to 12-1/2
1952 - 8-1/8	to 10-7/8	1955 thru July 12	- 11-7/8 to 14-7/8

The applications now before us show that it has been applicant's practice to finance itself temporarily with short-term bank borrowings and from time to time to refinance itself through the sale of bonds, debentures, and shares of preferred and common stock. In its balance sheet set forth above applicant reports \$7,000,000 of short-term bank loans outstanding on May 31, 1955, and in its applications it reports additional borrowings of \$1,500,000 since the date of the balance sheet and contemplated borrowings of

^{1/} In addition, \$250,000 of debentures are included in current liabilities being payable this year through the operation of the sinking fund.

^{2/} According to Exhibit D filed in Application No. 37138, earnings per share have been as follows:

1950 - 68 cents	1953 - 88 cents
1951 - 54 cents	1954 - 73 cents
1952 - 89 cents	Year May 31, 1955 - 80 cents

\$500,000 more during August, which would bring the total short-term loans up to \$9,000,000 by the time proceeds from the sale of its securities become available. Applicant reports that it expects such proceeds will be approximately equal to the amounts necessary to pay all the outstanding bank loans, but should there be any balance of such proceeds it will apply them to the payment of additions, extensions and improvements to its facilities.

On numerous occasions the Commission has reviewed applicant's operations and facilities and is familiar with the growth in its business and with the construction program it has been required to undertake to provide service and with which it is faced in the future.^{3/} Its electric construction expenditures in 1954 were \$7,698,000 and in 1955 they are estimated at \$10,500,000, consisting principally of additions and betterments to meet growth in business and completion of a fourth unit of a 40,000-kilowatt capacity at its Highgrove Steam plant. Such expenditures are estimated at \$14,000,000 in 1956, including \$7,000,000 toward a new 60,000-kilowatt steam electric generating unit.

It is applicant's intention to offer its shares of common stock and its bonds for sale at competitive bidding and to open the bids for the shares on August 23, 1955, and for the bonds on August 30. It intends to sell its shares of stock to the highest qualified bidder and to sell the bonds to the qualified bidder offering the lowest annual cost of money, the successful bid to specify the interest rate. At the conclusion of the financing it is estimated that applicant's capital ratios will consist of first mortgage bonds

^{3/} As recently as December 28, 1954, the Commission, in Decision No. 50909, analyzed applicant's operations and approved increases in rates, to become effective during January of this year, which were designed to yield a return of 6.25% on a rate base of \$63,630,000 for the California properties.

53.6%, debentures 1.6%, cumulative preferred stock 10.6%, and common stock equity 34.2%.

From a review of the applications and the information before us it clearly appears that applicant will have need for external financing to meet its short-term debt and to enable it to proceed with its construction activities. In our opinion the money, property or labor to be procured or paid for by the issue and sale of the shares of stock and the bonds herein authorized is reasonably required by applicant for the purposes specified herein, which purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

O R D E R

The Commission having considered the above entitled matters, and being of the opinion that public hearings are not necessary and that the applications should be granted, as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. California Electric Power Company may issue not exceeding 230,000 shares of its common stock on or before December 31, 1955, and sell the same at competitive bidding to the highest qualified bidder. It shall invite the submission of bids by publication not less than seven days prior to the date set for opening said bids.

2. California Electric Power Company may execute and deliver a supplemental indenture in, or substantially in, the same form as that filed as Exhibit C in Application No. 37154, and may

issue not exceeding \$6,000,000 in principal amount of its first mortgage bonds due 1985, and sell the same at competitive bidding to the qualified bidder offering the lowest annual cost of money to applicant for the new bonds. It shall invite the submission of bids by publication at least seven days prior to the date set for the opening of the bids.

3. Applicant shall use the proceeds from the sale of the shares of stock and bonds herein authorized for the purpose of paying outstanding short-term bank loans and, if there remain any of such proceeds, of financing the cost of construction, completion, extension or improvement of its facilities. The accrued interest from the sale of its bonds may be used for said purposes or for general corporate purposes.

4. Immediately following the opening of bids, California Electric Power Company shall file a report with the Commission showing the name of each bidder, the bid price and the cost of money in the case of the bonds, and the names of those to whom the contracts were awarded.

5. Within 60 days after the issue and sale of the stock and bonds herein authorized, applicant shall file with the Commission four copies of each of its prospectuses and a report showing the amount of bonds and stock issued and sold, the prices at which sold, the names of those to whom sold, and the purposes for which the proceeds were used. Within six months after such issue and sale, applicant shall file a statement showing in some detail the expenses incurred by it incident thereto and the account, or accounts, to which such expenses were charged.

6. The authority herein granted to issue and sell bonds will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$3,500. In other respects the authorization herein granted will become effective on the date hereof.

Dated at San Francisco, California, this 9th day of August, 1955.

Ed E. Kestel
President

Justus J. Calver

Frank Vintner

Walter D. Fish

B. H. Hunt

Commissioners

