

ORIGINAL

Decision No. 55527

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 140,000 shares of Cumulative Preferred Stock, par value \$50 per share, exempt from the Commission's Competitive Bidding Rule, established in Decision No. 38614, as amended by Decision No. 49941.

Application No. 39308

Kenneth M. Lemon, for applicant;  
O'Melveny & Myers, by Charles K. Mills, for Merrill Lynch, Pierce, Fenner & Beane, and Kidder, Peabody & Co., interested parties.

O P I N I O N

California Electric Power Company has filed this application for authorization to issue and sell 140,000 shares (\$7,000,000 par value) of its cumulative preferred stock.

The application was filed with the Commission on August 7, 1957, and came up for public hearing before Examiner Coleman in Los Angeles on August 28, 1957, at which time it was taken under submission. The Commission has received no protests in the proceeding.

The purpose of the proposed financing is to provide applicant with funds to liquidate a portion of its short-term bank loans, aggregating \$7,500,000 at present, which had been utilized for temporary financing of additions and betterments to applicant's public utility facilities. The company reports that its

construction expenditures for 1957 will amount to \$22,600,000 and for 1958, to \$24,200,000, a total of \$46,800,000. The expenditures for 1957 include approximately \$9,000,000 for new transmission and distribution lines and substations, \$3,800,000 for completion of the first unit at the San Bernardino Steam Plant, \$4,800,000 for a second unit of 60,000 kw at such plant, \$1,500,000 toward the first unit of 80,000 kw at the Axis Steam Plant presently planned for erection near Yuma, Arizona, and \$3,500,000 for other facilities.

The record shows that the company has obtained approximately \$10,000,000 of its estimated requirements for 1957 through the sale of common stock and bonds in April of this year and that it expects to provide the balance from the proposed preferred stock financing, from internal sources, short-term bank loans and from the sale of additional securities.

In financing itself, the company has issued bonds, debentures, and shares of preferred stock of several series and of common stock. Its capital ratios, as of June 30, 1957, and as adjusted to give effect to the proposed financing, are shown in the following tabulation:

	<u>As of</u> <u>6/30/57</u>	<u>Pro</u> <u>forma</u>
Long-term debt	55.6%	52.0%
Preferred stock	8.2	14.1
Common stock equity	<u>36.2</u>	<u>33.9</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The issue of additional debt at this time instead of preferred stock would increase applicant's debt component to

approximately 59 per cent which, in the opinion of the company, might impair its credit position and cause future debt financing to be more costly, and the issue of additional common stock is considered equally undesirable by applicant because it has sold two issues totaling 600,000 shares within the last thirteen months and it feels that an additional issue following so closely upon previous distributions would adversely affect the market value. The company, therefore, has concluded that preferred stock constitutes the best medium to employ at this time.

Upon reviewing present financial and economic conditions, the company has considered that it is more advantageous for it to dispose of its shares by a negotiated underwriting and it requests exemption from the Commission's competitive bidding rule. It is of the opinion that a negotiated sale offers greater flexibility than one at competitive bidding and will permit the inclusion in the underwriting group of firms that are well acquainted with applicant's operations and will have a continuing interest in its securities. It is particularly concerned with the possibility that no bids would be received at a competitive sale and it feels that if this were to be the outcome, the general credit of the company would be weakened and it would be faced with a delay in obtaining new money needed by it to expand its facilities. With its requirements for large sums of money for the remainder of 1957 and for 1958, it asserts it is essential that it avoid the possibility of any delay.

The Federal Power Commission has granted applicant permission to negotiate with representatives of investment banking firms for the underwriting of the proposed issue and, on the basis

of such negotiations, it appears that the additional shares can be disposed of at an offering yield basis in the range of 6 per cent to 6.25 per cent, subject to change in the market conditions, with an underwriting commission between 95 cents and \$1.05 per share.

From a review of the application and of the testimony, it is apparent that applicant will have need for funds to liquidate its short-term indebtedness and to enable it to proceed with its construction activities. It clearly appears that the issue of preferred stock at this time is desirable and, in our opinion, we are warranted in entering our order exempting the issue from competitive bidding. The authorization herein granted relates only to the issue of stock and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

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 stock herein authorized is reasonably required by applicant for the purpose specified herein, and that such purpose is 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 Electric Power Company of 140,000 shares of cumulative preferred stock hereby is exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, provided applicant receive for said shares a price satisfactory to the Commission.

2. California Electric Power Company, on and after the effective date hereof and on or before January 31, 1958, may issue and sell said 140,000 shares at a price to be fixed in a supplemental order.

3. California Electric Power Company shall use the proceeds to be received from the issue and sale of said shares for the purpose of paying outstanding indebtedness.

4. The authority to issue and sell such shares of preferred stock will become effective when the Commission, by supplemental order, has fixed the price at which they may be sold. In other respects, the authority herein granted is effective on the date hereof.

5. California Electric Power Company shall file with the Commission, as soon as possible, three 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 and the price at which they were sold.

Dated at San Francisco, California, this 10<sup>th</sup> day of September, 1957.

*W. E. Dick*  
President  
*Samuel H. Greener*  
*Michael J. Golan*  
*R. Kraft*  
*E. Lyn Fox*  
Commissioners