

ORIGINAL

Decision No. 56584

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 the statutory
merger of Southern Utah Power Company
into applicant and authorizing applicant
to issue its securities in connection
with such merger.

Application
No. 39958

O P I N I O N

This is an application for an order of the Commission authorizing California-Pacific Utilities Company to issue first mortgage bonds and shares of preferred and common stock in exchange for bonds, debentures and stock of Southern Utah Power Company under and pursuant to the terms of a merger agreement.

Description of Operations

California-Pacific Utilities Company is a California corporation presently engaged in operating public utility electric, gas, water and telephone systems in various parts of California, Oregon, Nevada, Idaho and Wyoming and in operating nonutility propane tank gas service in Oregon and California.

Southern Utah Power Company is a Utah corporation now engaged in the public utility electric business in the southwestern part of Utah and in the northwestern part of Arizona.

California-Pacific Utilities Company, at the close of 1957, reported 62,425 customers of its various services and Southern Utah Power Company, 4,954 customers. The following tabulation indicates the relative size of the two operations and the growth experienced during the last three years:

California-Pacific Utilities Company

	<u>1955</u>	<u>1956</u>	<u>1957</u>
Operating revenues	\$7,272,357	\$7,672,018	\$7,944,939
Net available for fixed charges	1,028,284	1,121,350	1,134,230

Southern Utah Power Company

	<u>1955</u>	<u>1956</u>	<u>1957</u>
Operating revenues	\$1,078,560	\$1,233,110	\$1,260,130
Net available for fixed charges	203,465	251,742	243,693

Proposed Merger

Subject to receiving the appropriate authorization, the two corporations now propose to enter into an agreement of merger whereby Southern Utah Power Company will be merged into California-Pacific Utilities Company and California-Pacific Utilities Company, as the surviving corporation, will succeed to all the assets and liabilities of Southern Utah Power Company and will issue its securities in exchange for securities of that company. The separate existence of Southern Utah Power Company will cease and its public utility systems will then be operated as a division of California-Pacific Utilities Company.

Southern Utah Power Company presently has outstanding securities as follows:

First mortgage bonds -	
3-1/2% series, due 1981	\$1,128,000
4-1/4% series, due 1982	915,000
Debentures -	
4% due 1971	<u>390,000</u>
Subtotal	2,433,000
Preferred stock -	
2,994 shares, \$100 par, 5%	299,400
Common stock -	
91,945 shares, \$10 par	<u>919,450</u>
Total	<u>\$3,651,850</u>

Issue of Bonds

The merger agreement provides that the outstanding long-term indebtedness of Southern Utah Power Company will not be assumed by California-Pacific Utilities Company but will be surrendered for cancellation upon consummation of the merger and replaced with an equal principal amount of first mortgage bonds of the surviving corporation. The presently outstanding bonds, as well as the preferred shares, of Southern Utah Power Company are held by institutional investors.

To comply with this provision of the agreement, California-Pacific Utilities Company proposes to create two new series of first mortgage bonds. One series, to be designated as First Mortgage Bonds, Series G, 4%, due May 1, 1986, will be issued in the principal amount of \$1,128,000 in exchange for \$1,128,000 principal amount of Southern Utah Power Company's First Mortgage Bonds, 3-1/2% Series, due 1981. The other series, to be designated as First Mortgage Bonds, Series H, 4-3/4%, due May 1, 1986, will be issued in the principal amount of \$1,305,000 in exchange for \$915,000 of Southern Utah Power Company's First Mortgage Bonds, 4-1/4% Series, due 1982, and \$390,000 of 4% Debentures, due January 1, 1971.

Bonds of both new series will not be subject to redemption prior to May 1, 1963.

Issue of Preferred Stock

The outstanding preferred stock of Southern Utah Power Company consists of 2,994 shares of 5% stock of the par value of \$100 each.

To replace this stock, California-Pacific Utilities Company proposes to create a new series of 5-1/2% Cumulative Convertible Preferred Stock of the par value of \$20 a share and to deliver 14,970 shares of such new series in exchange for Southern Utah Power Company's preferred shares. The new series of preferred shares will be convertible at the option of the holders into shares of common stock of California-Pacific Utilities Company at an initial conversion rate of two-thirds of one common share for each 5-1/2% Cumulative Convertible Preferred Share.

Issue of Common Stock

As to the exchange of common shares, it is contemplated that California-Pacific Utilities Company will issue two of its \$10 par value shares in exchange for each three of the \$10 par value shares of Southern Utah Power Company, this calling for an aggregate issue by California-Pacific Utilities Company of 61,296 common shares in exchange for the 91,945 common shares of Southern Utah Power Company.

The application shows that at the end of 1957 the book value of California-Pacific Utilities Company's common shares was \$21.61 each and of Southern Utah Power Company's common shares, \$19.06 each. In 1957, California-Pacific Utilities Company paid a dividend of

\$1.60 a share and Southern Utah Power Company, \$1 a share. California-Pacific Utilities Company's common shares were quoted on the market during 1957 at bid prices ranging from \$24 to \$29.50 a share and Southern Utah Power Company's common shares at bid prices ranging from \$14 to \$17 a share. On March 10 of this year, California-Pacific Utilities Company's common shares were quoted at \$28 bid and \$28.50 asked and Southern Utah Power Company's common shares at \$17.25 bid and \$18 asked.

Pro Forma Statement

The following statement shows the recorded assets, liabilities and capital of the two corporations as of December 31, 1957, and a combined pro forma statement:

<u>Assets</u>	<u>California- Pacific</u>	<u>Southern Utah</u>	<u>Combined Pro Forma</u>
Utility plant, original cost (net)	\$19,258,533	\$4,648,495	\$23,907,028
Other physical property	719,118	1,930	721,048
Current assets	2,231,545	239,759	2,471,304
Deferred charges	<u>78,362</u>	<u>20,804</u>	<u>99,166</u>
Total	<u>\$22,287,558</u>	<u>\$4,910,988</u>	<u>\$27,198,546</u>
 <u>Liabilities and Capital</u>			
Capitalization -			
Common stock	\$ 2,619,330	\$ 919,450	\$ 3,232,290
Premiums	995,900	241,267	1,543,657
Retained earnings	2,045,684	591,390	2,637,074
Preferred stock	3,110,020	299,400	3,409,420
Long-term debt	10,125,000	2,443,000 ^a	12,568,000
Bank loans	<u>1,150,000</u>	<u>65,000</u>	<u>1,215,000</u>
Subtotal	20,045,934	4,559,507	24,605,441
Current liabilities	1,623,349	208,126	1,831,475
Deferred credits	<u>618,275</u>	<u>143,355</u>	<u>761,630</u>
Total	<u>\$22,287,558</u>	<u>\$4,910,988</u>	<u>\$27,198,546</u>

a. Since December 31, 1957, \$10,000 of bonds have been paid.

Capital Structure and Earnings

The capital structure of California-Pacific Utilities Company as of December 31, 1957, and as adjusted to give effect to the proposed merger and the additional securities, is as follows:

	<u>December 31, 1957</u>	<u>Pro Forma</u>
Bonds and debentures	56.3%	55.9%
Preferred stock	15.5	13.9
Common stock equity	<u>28.2</u>	<u>30.2</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The book value per share of common stock of California-Pacific Utilities Company and the earnings on the total capital of that company during 1957 and, as calculated on the merged properties, giving effect to estimated savings in operating expenses, are shown in the following tabulation:

	<u>Book Value</u>	<u>Earnings on Total Capital</u>
California-Pacific Utilities Co.	\$21.61	5.713%
Merged properties	22.93	5.727

From a review of the financial statement, it appears that the net operating revenues of Southern Utah Power Company should be ample to service the securities which California-Pacific Utilities Company proposes to issue, including the maintenance of

the current annual dividend on the common shares.^{1/} In addition, it is estimated that at the outset annual savings of \$38,016 will be effected by the elimination of certain general and administrative expenses.

Conclusions and Findings

In our opinion the conclusion is warranted, on the basis of the information before us, that the merger will not constitute a drain on the present operations or a burden on the present customers of California-Pacific Utilities Company. Moreover, it appears that the merger of the two corporations will result in economies in operations and that the surviving corporation, with

^{1/}

The relationship of the reported 1957 net operating revenues of Southern Utah Power Company, on the one hand, to the added financial requirements of the surviving corporation, on the other hand, is shown in the following tabulation:

Operating income, Southern Utah Power Company, year 1957		\$243,693
Interest on long-term debt issues to be exchanged -		
First mortgage bonds -		
Series G, 4%, due May 1, 1986	\$45,120	
Series H, 4-3/4%, due May 1, 1986	<u>61,988</u>	
		<u>107,108</u>
Net income		\$136,585
Preferred stock dividends -		
Cumulative convertible, 5-1/2% series, 14,970 shares, \$20 par value		<u>\$ 16,467</u>
Income available for common shares		<u>\$120,118</u>
No. of common shares to be issued in exchange	61,296	
Earnings available, per common share		\$1.96
Current dividend, per common share		1.60

its greater assets and earnings, should enjoy a more advantageous position in the financial community upon which it is dependent for funds to meet the capital requirements. We therefore find that the proposed merger will not be adverse to the public interest, that the money, property or labor to be procured or paid for by the issue of the securities herein authorized is reasonably required for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The action taken herein shall not be construed to be a finding of the value of the properties referred to in this application nor 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

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary and that the application should be granted, as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. California-Pacific Utilities Company may enter into an agreement of merger and may execute its Eighth Supplemental Indenture, dated as of May 1, 1958 and its Ninth Supplemental Indenture, also dated as of May 1, 1958.

2. California-Pacific Utilities Company, on and after the effective date hereof and on or before December 31, 1958, may issue its first mortgage bonds and shares of preferred and common stock in amounts and for purposes as follows:

- a. Not to exceed 61,296 of its common shares, \$10 par value, in exchange for and upon the conversion of the 91,945 outstanding shares of common stock of Southern Utah Power Company, \$10 par value.
- b. Not to exceed 14,970 of its 5-1/2% Cumulative Convertible Preferred Shares, \$20 par value, in exchange for and upon the conversion of the 2,994 outstanding shares of Southern Utah Power Company's 5% Preferred Stock, \$100 par value.
- c. Not to exceed \$1,128,000 aggregate principal amount of its First Mortgage Bonds, Series G, 4%, due May 1, 1986, in exchange for and upon the surrender for cancellation of \$1,128,000 outstanding principal amount of Southern Utah Power Company's First Mortgage Bonds, 3-1/2% Series, due 1981.
- d. Not to exceed \$1,305,000 aggregate principal amount of its First Mortgage Bonds, Series H, 4-3/4%, due May 1, 1986, in exchange for and upon the surrender for cancellation of \$915,000 outstanding principal amount of Southern Utah Power Company's First Mortgage Bonds, 4-1/4% Series, due 1982 and \$390,000 outstanding principal amount of 4% Debentures, due January 1, 1971.

3. California-Pacific Utilities Company, from time to time, may issue such number of its common shares, \$10 par value, as shall be required to be issued upon conversion of all or any part of its new series of 5-1/2% Cumulative Convertible Preferred Shares.

4. California-Pacific Utilities Company shall file with the Commission a monthly report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

5. 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 \$1,716.50.

Dated at San Francisco, California, this 29th day of April, 1958.

[Signature]
President

[Signature]

[Signature]

[Signature]
Commissioners

