

ORIGINAL

Decision No. 57616

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
120,000 Shares of Cumulative
Preferred Stock, at par \$50 per
share, exempt from the Commission's
Competitive Bidding Rule, established
in Decision No. 38614, as amended by
Decision No. 49941.

Application No. 40473

Donald J. Carman, for applicant.

O P I N I O N

California Electric Power Company has filed this application for authorization to issue and sell, at par, 120,000 shares of its cumulative preferred stock of the par value of \$50 each and of the aggregate par value of \$6,000,000.

The application was filed on October 1, 1958. A public hearing was held before Examiner Coleman in San Francisco on October 21, 1958, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant was organized under the laws of the State of Delaware and is engaged principally in the sale of electric energy in portions of California and Nevada. Its financial statement as of June 30, 1958, shows the amount of its long-term debt, preferred stock, and common stock and surplus, as follows:

Long-term debt -			
First mortgage bonds -			
3's	due 1976	\$16,000,000	
3's	due 1978	5,500,000	
2-7/8's	due 1980	6,000,000	
3-1/4's	due 1984	8,000,000	
3-5/8's	due 1985	6,000,000	
4-1/2's	due 1986	8,000,000	
4-5/8's	due 1987	6,000,000	
4-1/2's	due 1988	<u>12,000,000</u>	
	Subtotal	67,500,000	
	Debentures due 1960	<u>750,000</u>	
	Total long-term debt		\$ 68,250,000 56.3%
Preferred stock -			
\$3	series	\$ 5,248,150	
\$2.50	series	3,000,000	
6%	series	<u>7,000,000</u>	
	Total preferred stock		15,248,150 12.6
Common stock and surplus			<u>37,788,845</u> <u>31.1</u>
Total			<u>\$121,286,995</u> <u>100.0%</u>

In addition, the company has \$10,500,000 of short-term bank loans outstanding and it anticipates additional borrowings of \$1,250,000 in the near future.

For a number of years applicant has been engaged in a substantial program of plant expansion. The testimony shows that the construction expenditures will amount to approximately \$21,300,000 in 1958 and that they are estimated at approximately \$12,850,000 in 1959, these sums including amounts for the completion of the second 60,000-kw unit at the San Bernardino Steam Plant, for the first unit at the Axis Steam Plant near Yuma and for the first 60,000-kw unit at the new Cool Water Steam Plant near Barstow. Applicant reports that its 1958 expenditures have been, and will be, met with proceeds from the short-term financing to which reference has been made, with proceeds from permanent financing earlier in the year and with earnings from operations.

Applicant now desires to replace a portion of its short-term borrowings with permanent capital. It is of the opinion that a further increase in its debt obligations and in its common stock equity is undesirable at this time and that its preferred stock component should be increased. It has considered methods of disposing of an issue of preferred shares and has been authorized by the Federal Power Commission to negotiate for the sale. As a result of these negotiations, it has concluded that a private placement would be more advantageous, and cheaper, than either a negotiated underwriting or a sale at competitive bidding. It reports, for example, that by placing the shares privately it will pay a finder's fee of $1/4$ of 1%, or a total of \$15,000, as compared with underwriting spreads which, in recent preferred offerings, both negotiated and competitive, have ranged from 1.63% to 2.895% of the offering price, and that it will be saved the expense of registration with the Securities and Exchange Commission. Applicant seeks exemption from the Commission's competitive bidding rule so as to enable it to proceed with the private placement of its shares.

The shares of preferred stock will constitute a new series. The new shares will have a par value of \$50 each with annual cumulative dividends at the rate of $5-3/4\%$. Provisions will be made for a sinking fund to retire the shares in an annual amount, commencing in 1961, equivalent to 2% of the aggregate par value of the shares of such preferred stock theretofore issued.

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 120,000 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.
2. California Electric Power Company, on and after the effective date hereof and on or before January 31, 1959, may issue and sell said 120,000 shares at not less than \$50 a share.

3. California Electric Power Company shall use the proceeds to be received from the issue and sale of said shares for the purpose referred to in this application.

4. California Electric Power Company shall file with the Commission, as soon as possible, 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.

5. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 25th day of November, 1958.

E. L. Fox
President
E. N. Mitchell
William J. Roach
Richard J. ...
Commissioners

Commissioner Ray E. Untereiner, being necessarily absent, did not participate in the disposition of this proceeding.