

Decision No. 87076

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of CALIFORNIA-PACIFIC)
UTILITIES COMPANY to issue and sell)
\$6,500,000 principal amount of its)
First Mortgage Bonds, Series Y,)
8-3/4%, due March 15, 2002, and to)
execute and deliver a Twenty-Sixth)
Supplemental Indenture.)

Application No. 57066
(Filed February 11, 1977)

O P I N I O N

California-Pacific Utilities Company seeks authority to issue and sell not exceeding \$6,500,000 principal amount of its bonds, and to execute and deliver a supplemental indenture.

Applicant is a California corporation owning and operating public utility electric, gas, telephone and water systems in California and Nevada; electric, gas and telephone systems in Oregon; and electric systems in Arizona and Utah. The company is also engaged in the nonutility sale of propane in Oregon. The corporation's reported capital ratios, adjusted to give effect to proposed common stock and bond issues, are summarized from the application as follows:

| | |
|---------------------|-------------|
| Long-term debt | 50% |
| Preferred stock | 12 |
| Common stock equity | <u>38</u> |
| Total | <u>100%</u> |

The application indicates that the utility's outstanding notes, representing short-term bank loans incurred for construction purposes, aggregated \$10,000,000 at the time of filing. The company reports unreimbursed construction expenditures aggregating

\$37,713,394 as of November 30, 1976. It expects to expend approximately \$13,900,000 for additions and betterments to its properties during the year 1977.

In order to obtain funds to reimburse its treasury for construction expenditures, applicant proposes to issue and sell \$6,500,000 principal amount of its First Mortgage Bonds, Series Y, 3-3/4%, due March 15, 2002. The bonds would be secured by an existing indenture as supplemented by twenty-six supplemental indentures. The company intends to sell said bonds, at a price of 100% of their principal amount, plus accrued interest (which it might use for general corporate purposes), to four institutional investors, and has agreed to pay Dean Witter & Co. Incorporated a fee of \$32,500 for placing the bonds. A ten-year restricted redemption provision would apply to the proposed bond issue.

By letter dated February 10, 1977, a copy of which is attached to the application as Exhibit A, Dean Witter & Co. Incorporated discusses advantages of private placement of the proposed bond issue. A portion of said letter reads as follows:

"If California-Pacific Utilities Company were to seek a rating on its bonds, we believe they would be placed in Baa and BBB categories by the rating services. The preferred is currently rated baa/BBB, and our analysis of the Company's financial position indicates that at this time the Company's senior debt would probably be judged the same.

"During the time the private placement of the Series Y Bonds was being negotiated, we believe that a public issue of Baa/BBB rated bonds could have been sold at yields ranging between 8 3/4% and 9 1/4% depending on the particular issue. We believe that a public competitive sale of the Series Y Bonds would have produced an interest rate of 9% to 9 1/4% if offered during this period due to the smaller size of California-Pacific Utilities, its past earnings record, the current problems facing the utility industry in general and the lack of liquidity inherent in a \$6,500,000 issue. In addition, the underwriting discount probably would have ranged from 1.00% to 1.50%, resulting in a cost to the Company of 9.10% to 9.40%. The Company would also have sustained significant issuance expenses in addition.

"By comparison the private sale of the Series Y Bonds will produce an interest rate of 8 3/4%, 0.5% in placement fees and little issuance expense. The resulting cost to the Company is approximately 8.80%."

After consideration of the verified application the Commission finds that:

1. Applicant is a California corporation operating as a public utility in Arizona, California, Nevada, Oregon and Utah.
2. In addition to this Commission, the Arizona Corporation Commission and the Oregon Public Utility Commissioner exercise jurisdiction over applicant's security issues.
3. Applicant derives less than one-quarter of its revenues from California operations, and is not subject to competitive bidding requirements in the other jurisdictions in which it operates.
4. An interest rate of 8-3/4% for the proposed private placement of bonds is more favorable than applicant could presently expect in a public offering at competitive bidding.

5. The proposed private placement will involve substantially lower fees and expenses than would a public offering at competitive bidding.
6. The sale of the proposed bonds should not be required to be through competitive bidding.
7. The proposed bonds would be for proper purposes.
8. Applicant has need for external funds for the purposes set forth in this proceeding.
9. The proposed restricted redemption provision is reasonable.
10. The proposed Twenty-Sixth Supplemental Indenture would not be adverse to the public interest.
11. The money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.
12. There is no known opposition and there is no reason to delay granting the relief requested.

On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. The authorization herein granted is for the purpose of this proceeding only, and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. The sale by California-Pacific Utilities Company of not exceeding \$6,500,000 principal amount of its First Mortgage Bonds, Series Y, 8-3/4%, due March 15, 2002, is hereby exempted from the Commission's competitive bidding rule set forth in Decision 30614, dated January 15, 1946, as amended, in Case 4761.

2. California-Pacific Utilities Company may execute and deliver a Twenty-Sixth Supplemental Indenture and Bond Purchase Agreements, which documents shall be in substantially the same forms as those attached to the application as Exhibits B and C, respectively.

3. California-Pacific Utilities Company may issue and sell not exceeding \$6,500,000 principal amount of its First Mortgage Bonds, Series Y, 8-3/4%, due March 15, 2002, upon substantially the terms set forth in Exhibit C attached to the application.

4. California-Pacific Utilities Company shall use the net proceeds to be derived from its Series Y bonds for the purposes set forth in the application.

5. California-Pacific Utilities Company shall file with the Commission the report required by General Order 24-B, which order, insofar as applicable, is hereby made a part of this order.

5. This order shall become effective when California-Pacific Utilities Company has paid the fee prescribed by Section 1904.2 of the Public Utilities Code, which fee is \$2,502.

Dated at San Francisco, California, this 9th day of MARCH, 1977.

Robert B. ...
President

Vernon L. ...

Ronald ...

Richard D. ...
Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

