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Decision No. 13627.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
THE CALIFORNIA OREGON POWER COMPANY,
a corporation, for an order of the
Railroad Commission of the State of
California; (a) approving its agree-
ment with Pacific Gas and Electric
Company; (b) authorizing the issue
and sale of \$2,500,000. of Series
"B" bonds; (c) authorizing the issue
and sale of \$1,500,000. of seven
percent. 20-year sinking fund deben-
tures; (d) authorizing the issue and
sale of \$1,000,000. of preferred stock.)

Application Number 10057

Morrison, Dunne & Brobeck, by Herman Phleger;
for The California Oregon Power Company

C. P. Cutten and R. W. DuVal, by R. W. DuVal;
for Pacific Gas and Electric Company.

BRUNDIGE, Commissioner:

OPINION

In this application, as amended at the hearing, the Rail-
road Commission is asked to make an order authorizing The California
Oregon Power Company and Pacific Gas and Electric Company to execute
an agreement for the sale and purchase of electric energy, and auth-
orizing The California Oregon Power Company to execute a trust inden-
ture and to issue common and preferred stock, bonds and debentures
in the amounts and for the purposes hereinafter set forth.

The California Oregon Power Company was organized on or
about October 16, 1920 with an authorized capital stock of \$15,000,000
divided equally into common and seven percent. cumulative preferred.
By Decision Number 8723, dated March 10, 1921 (Vol. 19, Opinions and

Orders of the Railroad Commission of California, page 477) the company was authorized to acquire the properties of California-Oregon Power Company and to issue \$2,220,000. of preferred stock and \$4,440,000. of common stock in exchange for bonds and unpaid interest of California-Oregon Power Company. Since March 10, 1921 the Commission has authorized The California Oregon Power Company to issue and sell additional preferred stock in the amount of \$1,200,000. On March 31, 1924 the total stock outstanding was reported at \$7,654,300.00, consisting of \$4,441,100. of the common and \$3,213,200. of the preferred. In addition, preferred stock subscriptions of \$177,200. were reported. As of the same date the company's bonded indebtedness was reported at \$4,740,500. including \$1,953,500. of first and refunding mortgage series "A" seven and one half percent. bonds due 1941, \$2,000,000. of first and refunding mortgage series "B" six percent. bonds due 1942, \$597,000. of Rogue River Electric Company's five percent. bonds due 1937, and \$190,000. of Klamath Power Company's six percent. bonds due 1931.

For the years ending December 31st the company reports its revenues, operating expenses and other charges against revenues as follows:-

<u>ACCOUNT</u>	<u>1922</u>	<u>1923</u>
Operating revenues	\$1,036,650.23	\$1,363,410.26
Operating expenses	439,570.91	584,061.95
Net operating revenues	597,079.32	779,348.31
Nonoperating revenues	30,169.18	7,640.45
Gross income	627,248.50	786,988.76
Deductions:		
Interest on funded debt	212,437.55	253,643.22
Other interest	4,430.87	20,047.56
Depreciation	182,981.70	238,242.23
Amortization of debt dis-		
count and expense	11,823.01	18,664.73
Uncollectible bills	8,216.69	10,542.01
Other deductions	629.89	505.93
Total deductions	\$420,519.71	\$541,645.68
Profit for Year	\$206,728.79	\$245,343.08

The depreciation should be included in operating expenses, resulting in a corresponding deduction in the gross income.

The California Oregon Power Company is engaged in the business of generating, distributing and selling electric energy in the counties of Jackson, Josephine, Klamath, Douglas and Lane, in Oregon; and in Siskiyou, Shasta and Trinity in California; and in developing, storing, distributing and selling water in the cities of Klamath Falls and Roseburg in Oregon and in the Town of Dunsmuir in California. The company's 1923 annual report shows that its electric generating plants have a capacity of 38,025 K.V.A.

The present application shows that the company proposes to construct a hydroelectric generating plant, to be known as "Copco No. 2" and a transmission line from the plant to Delta, California. The new plant, which will be located on the Klamath River about one and one quarter miles below the present Copco No. 1 plant, will have an installed generating capacity of 30,000 K.V.A. and will be operated under a static head of 156 feet. The application indicates that the hydraulic structures will consist of a small concrete diversion dam to be constructed across the Klamath River and about 1,000 feet below the company's Copco No. 1 plant; two concrete lined tunnels 16 feet in diameter, one 2470 feet long and one 1275 feet long; 1200 feet of wood stave pipe 15 feet in diameter; and two riveted steel pressure lines, each 730 feet long and 12-1/2 feet in diameter. The power plant building will be approximately 60' x 120' and will house two vertical hydroelectric units each of 15,000 K.V.A. capacity with the necessary auxiliary equipment. Provision is made for appropriate substation equipment.

A 110,000 volt transmission line will be constructed extending from the new hydroelectric plant to Delta, passing through Weed, Sisson, Dunsmuir and Castella, a distance of about 82 miles, paralleling closely

the present 66,000 volt line. At Delta the new line will connect with another new line of similar type to be constructed by Pacific Gas and Electric Company from Delta to Cottonwood, a distance of about 43 miles. The proposed line will consist of 250,000 circular mill cables, supported on wooden structures made up of wooden poles spaced approximately 600 feet.

The cost of the hydroelectric plant, transmission line and appurtenances is estimated by the company at \$3,690,095.00 distributed as follows:-

A. Hydroelectric Plant		\$2,915,000.00
Lands	\$10,000.00	
Camps	25,000.00	
Construction plant . . .	150,000.00	
Dam and intake . . .	229,500.00	
Conduits	740,000.00	
Surge chamber and pen- stock	300,000.00	
Power House	185,000.00	
Hydraulic equipment . .	165,000.00	
Electrical equipment	422,500.00	
Undistributed items, en- gineering, superinten- dence, contingencies and overhead	<u>688,000.00</u>	
B. Transmission Line		775,095.00
Rights of way and survey	143,265.00	
Transmission poles and fixtures	172,496.00	
Transmission overhead system	310,225.00	
Transmission switches	6,997.00	
Communication system	24,857.00	
Undistributed items	116,255.00	
Maintaining service dur- ing construction	<u>1,000.00</u>	
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TOTAL.....		<u><u>\$3,690,095.00</u></u>

In addition to these expenditures the company estimates that during 1924 it will have to expend approximately \$1,534,500.00 for additions and betterments. The items making up the \$1,534,500. are shown in The California Oregon Power Company's Exhibit No. 2

as follows:-

East Side power plant, Klamath Falls	\$575,000.00
Increasing voltage, lines 1,3 and 4	112,000.00
Line extension, Lucerne substation to Weed	60,000.00
Rebuilding lines 3 and 7	103,000.00
Engineering, investigation and projected development	41,000.00
Siskiyou division betterments	50,000.00
Umpqua division betterments	19,000.00
Rebuilding distribution system, Ashland-Gold Ray	19,000.00
Increasing Drain line to 11 K.V.	16,000.00
Completion Roseburg substation	17,000.00
New reservoirs and mains, Klamath Falls	15,000.00
Bus at Gold Ray for 60,000 volt changes	10,000.00
Miscellaneous additions and betterments	497,500.00
Total	<u>\$1,534,500.00</u>

To obtain the moneys necessary to pay in part for the construction work referred to herein, The California Oregon Power Company proposes to issue and sell \$2,500,000.00 of its first and refunding mortgage series "B" six percent. bonds due February 1, 1942; \$1,500,000. of 20-year seven percent debentures due May 1, 1944; and \$1,000,000. of its seven percent. cumulative preferred stock. The company asks permission to sell its bonds at 95 percent. of face value plus accrued interest, its debentures at 94.5 percent. of face value plus accrued interest and its stock at not less than 95 percent. of par value. It also asks permission to use of the proceeds received from the preferred stock an amount not exceeding \$2.00 per share of stock sold to pay selling and other expenses incident to the sale of the stock. The company further asks permission to issue temporary certificates pending final execution and delivery of the bonds and debentures, such temporary certificates to be subsequently exchanged for such bonds and debentures.

The bonds will be callable, as a whole or in part, at the option of the company on sixty day's notice, on any interest payment date, at 107-1/2 and accrued interest up to and including February 1, 1927, and thereafter at a premium equal to one half of one percent. for

each year or fraction thereof of the unexpired term of the bonds.

The Commission is asked to authorize The California Oregon Power Company to execute a trust indenture defining the terms and conditions under which \$2,000,000.00 face value of debentures^{may} be issued. If permitted to do so, the company will issue forthwith \$1,500,000.00 of the debentures. As to the remaining \$500,000.00 of debentures, the indenture provides that they may be certified by the trustee only when the net income of the company for any twelve calendar months period in the previous fourteen calendar months period ending on the last day of the month previous to the date upon which application is made for the certification of such additional debentures, shall equal at least three times the annual interest on all debentures outstanding at the date of such application and on those debentures proposed to be issued, and shall also equal at least twice the amount required during the succeeding twelve months period for the payment of interest and sinking fund payments on the debentures then outstanding and on those proposed to be issued. The debentures are to be dated May 1, 1924, mature May 1, 1944, and bear interest at the rate of seven percent. per annum. They are callable at the option of the company as a whole or in part, on sixty day's notice, on any interest payment date at a premium equal to one quarter of one percent. for each year or fraction thereof of the unexpired term of the debentures. The debentures will not be a lien on any property. The company, however, agrees that it will not, so long as any of the debentures are outstanding, create any new mortgage or deed of trust upon its present properties to secure an issue of its notes, bonds or other obligations without providing for the security by such new mortgage or deed of trust of all of the debentures then outstanding equally and ratably with all other indebtedness secured

by such new mortgage or deed of trust. The company further agrees that on May 1st and November 1st of each year, while any of the debentures are outstanding, it will pay to the trustee (Mercantile Trust Company of California) a sum in cash estimated as follows:-

"A sum equal to four and three quarters(4-3/4) percent. of the par value of all debentures which have at any time been issued, less the par value of any of such debentures which have, at the time of said payment, been retired by conversion into common stock of the company"

Of the sums of money paid to the trustee, the trustee shall apply such an amount as shall be necessary to the payment of interest then due on the debentures, and shall apply the balance to the purchase and redemption of debentures. The debentures, at the option of the holders thereof, are convertible into shares of common stock of the company at seventy-five; that is, on the basis of \$300. face value of debentures for \$400. par value of common stock. If the \$1,500,000. of debentures which the company now asks permission to issue were converted into common stock, the company would have to issue \$2,000,000. of common stock. At the hearing the application was amended and permission asked to issue \$2,000,000 of common stock to refund the \$1,500,000. of debentures.

The Commission is asked to approve an agreement between The California Oregon Power Company and Pacific Gas and Electric Company. A copy of this agreement was filed with the Commission on May 23, 1924. The agreement requires The California Oregon Power Company to proceed as rapidly as possible with the construction of the hydroelectric plant and the 110,000 volt transmission line of 40,000 K.W.capacity from the plant to Delta, to which reference has been made. The Pacific Gas and Electric Company will receive power at Delta, and transmit it over a line which ^{it} is to construct

and maintain from Delta to Cottonwood. Power will be measured at 110,000 volts at Cottonwood. Beginning upon the date of the completion of the hydroelectric generating plant and continuing thereafter during the term (25 years) of the agreement, Pacific Gas and Electric Company shall purchase and receive from The California Oregon Power Company, all of the electric energy up to, but not exceeding, 20,000 kilowatts at 70 percent. monthly load factor generated at each plant. The Pacific Gas and Electric Company shall pay for the electric energy four and one half (4-1/2) mills for each kilowatt hour of the 20,000 kilowatts of electric power at a load factor of seventy (70) percent. applied monthly, and three and one quarter (3-1/4) mills for each kilowatt hour in excess thereof. The agreement provides that it "shall at all times be subject to such changes and modifications by the Railroad Commission of the State of California as said Commission shall, from time to time, prescribe in the exercise of its jurisdiction."

I herewith submit the following form of order:-

ORDER

Application having been made to the Railroad Commission for an order authorizing Pacific Gas and Electric Company and The California Oregon Power Company to execute an agreement and authorizing The California Oregon Power Company to execute a trust indenture and to issue its preferred and common stock, bonds and debentures, a public hearing having been held and the Railroad Commission being of the opinion that the application should be granted, as provided herein, and that the money, property or labor to be procured or paid for is reasonably required by The California Oregon Power Company for the purposes specified herein, and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED AS FOLLOWS :-

- (1) Pacific Gas and Electric Company and The California Oregon Power Company be, and they are hereby, authorized to execute an agreement substantially in the same form as that filed with the Commission on May 23, 1934;
- (2) The California Oregon Power Company be, and it is hereby, authorized to issue and sell \$1,500,000. of its seven per cent twenty year sinking fund convertible gold debentures due May 1, 1944; \$2,500,000. of its Series "B" first and refunding mortgage six per cent bonds due February 1, 1942; and \$1,000,000. of its seven per cent cumulative preferred stock. Pending the delivery of definitive bonds and debentures, the company may issue and deliver temporary certificates similar in form to those on file with the Commission, such temporary certificates to be subsequently exchanged for the bonds and debentures herein authorized. No definitive debentures shall be delivered until the Commission by supplemental order has authorized the company to execute an indenture under the terms of which the debentures will be issued.
- (3) The California Oregon Power Company be, and it is hereby, authorized to issue not exceeding \$2,000,000. of its common stock and to exchange such common stock from time to time when called upon to do so, for debentures herein authorized to be issued, on the basis of \$300. face value of debentures for \$400. par value of common stock.
- (4) The California Oregon Power Company shall sell the \$1,500,000. of debentures herein authorized at not less than 94-1/2 per cent of face value plus accrued interest; the \$2,500,000. of bonds at not less than 95 per cent of face value plus accrued interest; and the \$1,000,000. of preferred stock at not less than 95 per cent of par value.
- (5) The California Oregon Power Company may use, of the proceeds obtained from the sale of the preferred stock, an amount not exceeding two dollars per share of stock sold to pay commissions and other expenses incident to the sale of the stock. The remaining proceeds from the sale of the preferred stock and such portion of the two dollars per share of stock sold not needed to pay commissions and other expenses incident to the sale of the stock, together with the proceeds, other than the accrued interest, obtained from the sale of the bonds and debentures herein authorized shall be used to finance in part the cost of the extensions, additions, betterments and improvements to which reference is made in the foregoing opinion and which are more fully described in this application, provided that only such expenditures as are properly chargeable to capital account under the Uniform Classification of Accounts prescribed by this Commission shall be financed with such proceeds. The accrued interest may be used for general corporate purposes.

- (6) The California Oregon Power Company shall keep such record of the issue, sale and delivery of the stock, bonds and debentures herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order in so far as applicable, is made a part of this order.
- (7) The authority herein granted will become effective when The California Oregon Power Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$2500.
- (8) The time within which The California Oregon Power Company may issue its preferred stock, its bonds, and its debentures will expire on March 31, 1925.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

DATED at San Francisco, California, this 31st day of May, 1924.

C. Seaver
H. B. Burdick
Dwight Martin

J. T. Whittier
Commissioners.

Fee \$2500.00
H. M. Mather