

LEM

Decision No. 18962.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
THE CALIFORNIA OREGON POWER COMPANY)
for an order of the Railroad Commis-)
sion of the State of California, auth-)
orizing the issuance and sale of stock)
and debentures.)

ORIGINAL

Application No. 14113

Brobeck, Phleger & Harrison,
by H. H. Phleger, for applicant.

BY THE COMMISSION:

OPINION

The California Oregon Power Company has applied to the Railroad Commission for permission to issue and sell, at not less than \$91.00 per share, net, 15,000 shares of its six percent preferred stock, series of 1927, of the aggregate par value of \$1,500,000.00, and, at not less than 93 percent of face value plus accrued interest, \$4,000,000.00 of fifteen year five and one-half percent debentures for the purpose of paying indebtedness and of financing the cost of additions and betterments and for other corporate purposes.

In Exhibit "B" applicant reports its outstanding capital stock as of August 31, 1927, at \$9,730,000.00, consisting of \$4,441,100.00 of common stock, \$4,332,400.00 of seven percent preferred stock and \$956,500.00 of six percent preferred stock. In addition it reports preferred stock subscriptions of \$256,400.00. It reports its bonded debt at \$10,523,300.00 consisting of the

following:-

Rogue River Electric Company first mortgage 5's due 1937	\$ 547,000.00
First and refunding bonds;- Series "B" 6's, due 1942.....	\$4,465,300.
Series "C" 5½s, due 1955.....	<u>2,511,000.</u>
General and refunding bonds;- Series "A" 5½s, due 1946.....	<u>3,000,000.00</u>
Total.....	<u>\$10,523,300.00</u>

Current liabilities are reported at\$3,734,114.45.

It now appears in this application, that recently the company has amended its Articles of Incorporation, increasing and reclassifying its authorized capital stock. As now amended they provide for an authorized capital stock of \$30,000,000.00, divided into \$15,000,000.00 of common stock, \$4,420,000.00 of seven percent preferred stock, \$1,000,000.00 of six percent preferred stock and \$9,580,000.00 of six percent preferred stock, series of 1927. It appears that the three classes of preferred stock bear cumulative dividends, at the rates indicated, without preference among the three. The preferred stock, series of 1927, however, is redeemable at 110 per cent of par value, while the other two classes are not redeemable. Heretofore the Commission has approved the issue of all of the authorized seven percent preferred stock and six percent preferred stock, although all of such stocks have not yet been issued. The preferred stock, series of 1927, is a new class, of which the \$1,500,000.00 now proposed to be issued, is a part.

The debentures proposed to be issued also constitute a new class of security. These debentures will be dated October 1, 1927, bear interest at the rate of five and one half percent per annum, mature October 1, 1942 and be subject to redemption at any time on thirty days notice at a premium of two and one-half percent, if redeemed on or before October 1, 1930; two percent if redeemed after October 1, 1930 and on or before October 1, 1933; one and one-half percent, if redeemed after October 1, 1933 and on or before October 1,

1936; one percent, if redeemed after October 1, 1936 and on or before October 1, 1939; and one-half of one percent if redeemed after October 1, 1939 and on or before October 1, 1941, with no premium if redeemed thereafter. The company has not yet filed a copy of the agreement under which the debentures will be issued. Though the debentures will not be a lien on property, the record herein does not warrant their sale at a price so low as ninety-three and accrued interest. We believe that the company should receive at least ninety-four and one half and accrued interest for the debentures.

In making the present application the company reports, in its Exhibit No. 1, its capital expenditures already made during 1927 and estimated for the balance of the year, including, however, expenditures on its Prospect hydro-electric plant and its transmission line from Prospect to Copco which will be completed in the early part of 1928, at \$5,300,000.00, consisting of the following:-

Prospect hydro-electric plant	\$3,500,000.
Transmission line	800,000.
Miscellaneous additions and betterments, line, extensions, etc	<u>1,000,000.</u>
Total.....	<u>\$5,300,000.</u>

It appears that up to September 1, 1927, the company had actually expended for its construction work the sum of \$4,120,628.10, as shown in detail in Exhibit No. 4. It alleges that these expenditures have not been permanently financed but have been made, almost entirely, with moneys advanced by Standard Gas and Electric Company, the testimony in this connection showing that at present applicant is indebted to Standard Gas and Electric Company, on open account in the amount of approximately \$4,000,000. Applicant proposes to use the proceeds from its stock and debentures to liquidate its indebtedness due Standard Gas and Electric Company and to meet, in part,

the remaining estimated capital expenditures.

It is of record that the construction expenditures include interest during construction calculated at the rate of seven percent per annum. This charge, we feel, is unwarranted under existing financial conditions. While it may be to the advantage of Standard Gas and Electric Company which has been advancing moneys to applicant for construction purposes, to charge seven percent interest on money advanced, such payment by applicant is, we believe, unjustified.

Our failure to call attention to some of the other overhead and supervision construction costs does not mean that we necessarily approve the same. While the order herein will authorize the issue of stock and debentures to pay for the properties mentioned, such authority should not be construed as a finding of the cost or the value of the properties for the purpose of fixing rates.

Applicant has not yet filed a copy of the agreement defining the terms and conditions under which the debentures will be issued. Some of the terms of the debentures have been submitted. If the debenture agreement, as finally submitted, in any way modifies the terms of the debentures, or contains conditions of an unusual nature, we may modify the authority herein granted to issue debentures.

ORDER

The California Oregon Power Company having applied to the Railroad Commission for permission to issue stock and debentures, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the money, property or labor, to be procured or paid for through the issue of such stock and debentures is reasonably required 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 that The California Oregon Power Company be, and it hereby is, authorized to issue and sell, on or before June 30, 1928, at not less than \$96. per share, 15,000 shares of its six percent preferred stock, series of 1927, of the aggregate par value of \$1,500,000., and \$4,000,000. of its fifteen year, five and one half percent debentures at not less than 94-1/2 percent of face value plus accrued interest.

IT IS HEREBY FURTHER ORDERED that The California Oregon Power Company be, and it hereby is, authorized to use, if necessary, an amount not exceeding five dollars per share of stock sold to pay the expenses incident to the sale of the stock, and to use the remainder of the proceeds from the sale of the stock, and such portion of said five dollars not needed for said purposes and the proceeds from the debentures, other than accrued interest, to pay indebtedness due Standard Gas and Electric Company and to finance, in part, such cost of the additions, betterments and extensions referred to Exhibit No. 1, as is reasonably chargeable to fixed capital account. The accrued interest may be used for general corporate purposes.

IT IS HEREBY FURTHER ORDERED that The California Oregon Power Company shall keep such record of the issue and sale of the stock 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, insofar as applicable, is made a part of this order.

IT IS HEREBY FURTHER ORDERED that the authority herein granted to issue stock shall become effective upon the date hereof, but that the authority herein granted to issue debentures shall become effective only when applicant has filed with the Commission, in satisfactory form, a copy of the agreement defining the terms and conditions under which the debentures will be issued and has received a supple-

mental order authorizing its execution and when it has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$2,500.00.

DATED at San Francisco, California, this 25th day of October, 1927.

Ernest J. ...

Al Seaver

Leon ...

David ...

M. A. ...

Commissioners

PAY TO THE COMMISSIONER
PUBLIC UTILITIES COMMISSION
SAN FRANCISCO, CALIFORNIA
Fee \$2500⁰⁰/₁₀₀
OCT 27 1927
H. M. ...
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