

LEM

Decision No. 24640

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 Commission  
of the State of California authorizing:  
(a) The execution of a Refunding Mort-  
gage covering all of its presently  
owned and hereafter acquired properties;  
(b) The issue and sale of \$4,000,000.  
Refunding Mortgage Gold Bonds, 5% Series  
due 1961, or pledge thereof to secure  
one-year promissory notes; (c) The issue  
and sale of \$3,000,000. Five and One-  
half percent Gold Debentures; (d) The issue  
and sale of \$500,000 par value Six percent  
Preferred Stock, Series of 1927; (e) The  
sale of \$500,000 par value Six percent  
Preferred Stock, Series of 1927, at a price  
differing from that provided in Decision  
23954; (f) The issue and sale of 22,650  
shares of Common Stock without par value.

ORIGINAL

Application No. 17692

Brobeck, Phleger and Harrison, by Herman  
Phleger and James S. Moore, Jr., for  
applicant.

BY THE COMMISSION:

FIRST SUPPLEMENTAL OPINION

By Decision No. 24156, dated October 26, 1931, the  
Commission denied without prejudice the above numbered application  
insofar as it involved the issue of 59,411 shares of common stock  
of no par value in exchange for 59,411 shares of common stock of the  
par value of \$100.00 per share now outstanding; and the issue and sale  
of 36,240 shares of no par value common stock at \$25.00 per share.  
By the same decision, the Commission authorized The California Oregon  
Power Company to issue and sell, after the effective date of such  
decision and on or before June 30, 1932, at not less than \$94.00 net  
per share, 5,000 shares of its six percent preferred stock, Series of  
1927, and also authorized the company to sell, at not less than \$94.

per share, 5,000 shares of its six percent preferred stock, Series of 1927, authorized to be issued by Decision No. 23954, dated August 17, 1931.

On January 6, 1932, applicant filed with the Commission a supplemental application in which it asks permission to issue and sell 22,650 shares of its common stock without par value at not less than \$40.00 per share net to applicant, and to issue 59,411 shares of common stock without par value upon the surrender of 59,411 shares of applicant's par value common stock now outstanding.

On February 9, 1932, applicant filed a supplemental application in which it asks the Commission to modify its order in Decision No. 24156, dated October 26, 1931, so as to permit the sale of the 10,000 shares of applicant's six percent preferred stock, Series of 1927, authorized in said order, at a price of not less than \$80.00 per share net to applicant. As indicated, the issue of \$500,000.00 of the preferred stock, to which reference has been made, was authorized by the Commission by its Decision No. 23954, dated August 17, 1931, in Application No. 17554. The Commission by its first supplemental order in Application No. 17554, dated February 23, 1932, modified the order therein so as to permit The California Oregon Power Company to sell 2,781 shares of its six percent preferred stock, Series of 1927, at not less than \$86.00 per share and use of the proceeds, if necessary, not exceeding \$5.00 per share of stock sold to pay commissions and expenses incident to the sale of said shares of stock.

It appears from the record in the proceeding now before the Commission that the aforesaid \$1,000,000.00 of preferred stock will be acquired by the Standard Gas and Electric Company. It does not seem necessary at this time to authorize the expenditure of \$5.00 per share to pay commissions and expenses incident to the sale of such stock. The order herein will permit the sale of the said \$1,000,000.00 of

preferred stock at not less than \$85.00 per share and the use of the proceeds for the purposes indicated in Decision No. 24156, dated October 26, 1931.

It is urged that the common stock of applicant is not worth more than \$40.00 per share. In support of this contention, attention is called to Exhibit No. 9, which shows earnings on common stock per share as follows:

<u>YEAR</u>	<u>EARNING PER SHARE</u>
1922 .....	\$ .971
1923 .....	2.419
1924 .....	4.940
1925 .....	4.451
1926 .....	1,269
1927 .....	8.320
1928 .....	9.291
1929 .....	7.149
1930 .....	4.532
1931(1 mo.estimated) loss .....	6.617
Average for 10 years.....	3.460

In determining the earnings per share on its common stock, applicant sets up tentative adjusted depreciation charges which are \$276,459.82 in excess of the amount actually set up during the ten year period. Reports filed since do not show that any adjustments such as indicated in Exhibit No. 9 have been made in the accounts of applicant. As a matter of fact, information at hand shows that the company during 1931 set up a depreciation charge of \$300,000.00 instead of \$420,000.00, as set forth in Exhibit No. 9. Making this adjustment, the net loss per share on common stock for 1931 would be \$4.59, instead of \$6.617, as shown in Exhibit No. 9. The loss which the company suffered during 1931 was due to extraordinary operating expenses on account of the lack of precipitation during the season of 1930-1931, rather than to a decrease in the operating revenues of the company.

In Exhibit No. 8 applicant estimates the amount available for depreciation, amortization and common stock dividend for the calendar year ending December 31, 1932, at \$915,400.00. The record shows that

in arriving at this balance, it was estimated that the company's gross revenue from local business during 1932 will be about \$160,000.00 in excess of that for the year 1931. Mr. E. J. Rosenauer testified that it was doubtful whether this estimate would be realized. He further testified that about \$115,000.00 would have to be deducted from the \$915,400.00 on account of amortization of debt discount and expense and approximately \$430,000.00 on account of depreciation calculated on a six percent sinking fund basis. There is nothing in the record to show that the company is committed to charging \$430,000.00 on account of depreciation, to operating expenses or to other accounts. Assuming, however, that the company's figures are correct, it would realize during 1932 a return of \$4.50 per share on its common stock, if its operating revenues increased as estimated, or a return of \$2.50 per share if the estimated increase in operating revenues is not realized. These figures will be subject to further change on account of the company's actual policy relative to its depreciation charges.

The order herein will authorize applicant to issue and sell the 22,650 shares of common stock at a net price of \$40.00 per share. It should be understood, however, that by authorizing the issue of the stock at this price we are not committing the Commission to authorize the sale of subsequent issues of applicant's common stock at such a price. The sale of the stock at \$40.00 per share is authorized because of the record in this proceeding.

#### FIRST SUPPLEMENTAL ORDER

The California Oregon Power Company having asked permission to issue common stock, as indicated in the foregoing supplemental opinion, a public hearing having been held before Examiner Fankhauser, the Commission having considered the evidence submitted and being of the opinion that the money, property or labor to be procured or paid for through the issue of the stock herein authorized is reasonably required by

applicant for the purposes specified in this order, and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED, that The California Oregon Power Company be, and it hereby is, authorized to issue on or before June 30, 1932, 59,411 shares of common stock without par value, upon surrender of 59,411 shares of its par value common stock now outstanding.

IT IS HEREBY FURTHER ORDERED, that The California Oregon Power Company be, and it hereby is, authorized to issue and sell on or before June 30, 1932 at a net price of not less than \$40.00 per share, 22,650 shares of its common stock without par value and use the proceeds to pay indebtedness due Standard Gas and Electric Company.

IT IS HEREBY FURTHER ORDERED, that provision four(4) of the order in Decision No. 24156, dated October 26, 1931, reading-

"4. The California Oregon Power Company, may issue and sell, after the effective date hereof and on or before June 30, 1932 at not less than \$94.00 net per share, 5,000 shares of its six percent preferred stock, Series of 1927, and may issue and sell, at not less than \$94.00 per share, 5,000 shares of preferred stock authorized to be issued by Decision No. 23954, dated August 17, 1931,"

be, and the same is hereby, amended so as to read--

4. The California Oregon Power Company, may issue and sell, after the effective date hereof and on or before June 30, 1932 at not less than \$85.00 net per share, 5,000 shares of its six percent preferred stock, Series of 1927, and may issue and sell, at not less than \$85.00 per share, 5,000 shares of preferred stock authorized to be issued by Decision No. 23954, dated August 17, 1931.

IT IS HEREBY FURTHER ORDERED, that The California Oregon Power Company shall keep such record of the issue of the stock herein authorized and of the use of the proceeds, as will enable it to file a

report or reports, on or before the 25th day of each month, under the Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.

DATED at San Francisco, California, this 28<sup>th</sup> day of March, 1932.

O. C. Lewis

Leon Whitely

W. B. Harris

Fred H. Stewart

Commissioners.