

LEW

Decision No. 24781,

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
authorizing:

(a) the execution of a refunding mortgage covering all of its presently owned and hereafter acquired properties;

(b) the issue and sale of \$4,000,000. refunding mortgage gold bonds, 6-1/2 %, Series due 1942, and of \$4,000,000 refunding mortgage gold bonds, 8%, Series due 1962, for conversion;

(c) the issue and sale of \$3,000,000 five and one-half percent gold debentures, Series A;

(d) and other purposes as stated in the original and supplemental applications herein.

ORIGINAL

Application No. 17692

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

BY THE COMMISSION:

SECOND SUPPLEMENTAL OPINION

The Commission by its order in Decision No. 24156 dated October 26, 1931, authorized The California Oregon Power Company to issue and sell after the effective date of said order and prior to December 31, 1931, at not less than 98-1/2 percent of their face value and accrued interest, \$3,500,000.00 of four and one half percent one year notes and at not less than 97 percent of their face value and accrued interest, \$5,000,000.00 of five and one half percent debentures, due October 1, 1942. The said order provided that the authority to issue said notes and debentures would become effec-

tive upon the payment by The California Oregon Power Company of the fee prescribed by Section 57 of the Public Utilities Act, and when the Commission had authorized the company to execute an agreement under which the notes were to be issued. The company did not pay the fee and therefore the order in said decision insofar as it relates to the issue of notes and debentures, never became effective.

On May 6th the applicant filed its third supplemental application in this proceeding. In this third supplemental application applicant asks permission to issue and sell at 87 percent of their face value and accrued interest, \$4,000,000.00 of six and one half percent ten year refunding mortgage gold bonds due May 1, 1942. The bonds are redeemable in whole or in part at any time upon 45 days published notice upon the payment of the principal thereof and interest to date of redemption, together with a premium of two percent upon the principal thereof, if redeemed on or before May 1, 1937, and without premium thereafter. The six and one half percent bonds are convertible, at the option of the holder at any time on or before May 1, 1941, or on or before ten days prior to the redemption date, if the same are called for redemption, into an equal principal amount of refunding mortgage gold bonds, six percent series, due 1962. Upon such conversion the applicant agrees to pay the holder cash at the rate of \$50.00 per \$1,000.00 principal amount of bonds so converted. The interest to date of conversion is subject to adjustment. The six percent bonds are redeemable at the option of the company as a whole or in part on sixty days published notice, upon the payment of the principal thereof and interest to date of redemption, together with a premium of five percent upon the principal thereof, if redeemed on or before May 1, 1942, which premium shall be reduced one fourth of one percent for each ^{year or} fraction thereof thereafter elapsed to and including May 1, 1961, after which date the bonds shall

be redeemable at the principal amount thereof plus accrued interest.

It also asks permission to execute a refunding mortgage to secure the payment of the said bonds. In the event of a delay in the execution of the mortgage, or the issue of the bonds, applicant asks permission to date the mortgage and bonds June 1, 1932, and make corresponding changes in the dates of maturity, payment of interest and other dates.

As of March 31, 1932 applicant reports its assets and liabilities as follows:-

<u>A S S E T S</u>	
Plant, property, rights and franchises	\$34,049,664.07
Unamortized debt discount and expense.....	941,377.42
Investments	3,535.81
Sinking funds	61.78
Insurance unexpired	20,865.42
Cash	246,598.42
Accounts and notes receivable- net.....	819,307.05
Receivable from security sales	45,462.25
Materials and supplies	499,530.25
Prepaid accounts	6,140.00
Deferred accounts in process of amortization.....	234,330.32
TOTAL.....	<u>\$36,866,872.79</u>

<u>L I A B I L I T I E S</u>	
Preferred capital stock, 7% cumulative.....	\$ 2,883,000.00
Preferred capital stock, 6% cumulative.....	5,844,600.00
Subscriptions to preferred capital stock.....	58,800.00
Common capital stock	5,941,100.00
First and refunding mortgage sinking fund gold bonds:	
Series "B" 6% due 1942.....	4,201,600.00
Series "C" 5½% due 1955	2,468,000.00
General and refunding mortgage gold bonds:	
Series "A" 5½% due 1946.....	3,000,000.00
Debenture bonds 5½% due October 1, 1942.....	4,000,000.00
Due to affiliated companies.....	4,904,475.81
Accounts payable	131,880.86
Accrued for interest	208,939.83
Accrued for taxes	478,310.60
Accrued for dividends	138,121.50
Customer's deposits	51,917.20
Retirement reserves	1,897,621.73
Other reserves	119,855.54
Surplus	538,649.72
TOTAL.....	<u>\$36,866,872.79</u>

In Exhibit No. 15 the company reports that it should realize \$8,271,874.00 from securities authorized but unsold, and from the securities included in this third supplemental application. The amount is segregated as follows:-

PROCEEDS FROM:

Securities authorized(unsold):			
1554 shares 6% preferred stock	@	81.....	\$125,874.00
10000 shares 6% preferred stock	@	85.....	850,000.00
22650 shares common stock	@	40	906,000.00
Securities for which authorization is now requested:			
Refunding mortgage bonds 6½% due 1942			
\$4,000,000. principal amount	@	87	3,480,000.00
Gold debentures 5½% due 1942:			
\$3,000,000. principal amount	@	97.....	<u>2,910,000.00</u>
Total proceeds.....			<u><u>\$8,271,874.00</u></u>

In the same exhibit its cash requirements are reported as follows:-

Retirement of general and refunding gold bonds, 5½s, 1946:			
\$3,000,000. principal amount	@	104.....	\$3,120,000.00
Payment of floating debt incurred for retirement of underlying securities and for additions and betterments.....			4,904,475.81
To provide part of funds for necessary construction during the ensuing months of 1932.....			<u>247,398.19</u>
TOTAL.....			<u><u>\$8,271,874.00</u></u>

Since the date of Exhibit 15, applicant has issued \$1,000,000.00 of six percent preferred stock at \$85 per share and 22,650 shares of common stock at \$40. per share, for a total consideration of \$1,756,000.00. This stock was acquired by Standard Gas and Electric Company and the amount which applicant owes to that company reduced by that amount.

In Exhibit No. 16 applicant estimates its 1932 construction expenditures at \$1,195,118.00. From this it deducts expenditures incurred from January 1, 1932 to March 31, 1932 in the amount of \$503,760.00, leaving a balance to be expended during the year, of \$691,358.00.

Applicant has outstanding \$3,000,000.00 of five and one half percent general and refunding mortgage bonds due February 1, 1948. These bonds were issued under the authority granted by Decision No. 15700, dated November 30, 1925, and sold by the company at 93 percent of their face value and accrued interest. The company proposes to redeem these bonds now at 104 and accrued interest. It is alleged that it is impossible for the company to secure funds through the issue of additional bonds under its general and refunding mortgage, and that the bankers who have been negotiating for the purchase of additional bonds of applicant, insist that the general and refunding bonds be redeemed and the trust indenture securing the payment of such bonds released of record. Upon the payment of the general and refunding bonds, applicant will cause all of the Series "D" first and refunding bonds now pledged under the said general and refunding mortgage, to be cancelled; and will cause the first and refunding mortgage to be closed at \$6,770,300.00, the principal amount of first and refunding mortgage bonds issued thereunder and outstanding in the hands of the public. The \$3,000,000.00 of general and refunding bonds are owned by the Standard Gas and Electric Company, which controls applicant through stock ownership. This company has expressed a willingness to accept \$3,000,000.00 of applicant's five and one half percent debentures at 97 percent of their face value and accrued interest and to surrender the general and refunding bonds at 104 and accrued interest. To carry out this refunding operation the company will have to provide \$3,120,000.00 to redeem its general and refunding bonds and will secure \$2,910,000.00 from the issue of the debentures. An additional \$210,000.00 under applicant's proposal will have to be obtained from other sources.

In the order in Decision No. 24156 dated October 26, 1931, the Commission provided that none of the proceeds realized from the sale of the securities therein authorized might be used to pay premiums

on the said general and refunding mortgage bonds, nor might the unamortized discount and expense applicable to said bonds, be added to the discount and expense on notes and debentures authorized by said order.

Applicant requests that the Commission reconsider the aforesaid provision of its order in said Decision No. 24156 and permit it to use proceeds realized from the sale of securities to pay the premium on the general and refunding mortgage bonds. It is urged that in view of the fact that Standard Gas and Electric Company is willing to buy applicant's debentures at a price which is materially above the present market value of said debentures, applicant should be permitted to use proceeds from the sale of the aforementioned securities to retire the general and refunding bonds.

We have reviewed the testimony submitted in support of applicant's request and appreciate the fact that it is confronted with a problem of refunding a substantial open account indebtedness which has been incurred in the main for construction purposes. It is because of this situation that we are willing to grant applicant's third supplemental application, except in two particulars. We will not authorize the issue of the ten year six and one half percent bonds under a condition which will obligate applicant to pay to the holder of a six and one half percent bond, \$50.00 for every \$1,000.00 bond such holder desires to convert into a six percent bond. The bonds should be convertible upon a par for par basis. Neither are we willing to permit the company to use proceeds from the sale of securities to pay the \$120,000.00 premium on the general and refunding bonds. For accounting purposes the unamortized discount and expense on the general and refunding bonds may be added to the discount and expense on the debentures. We will not, however, regard such unamortized discount and expense as part of the cost of the money obtained

through the issue of the debentures.

Counsel for applicant announced at the hearing that the trust indenture under which the refunding mortgage bonds are to be issued, has not yet been prepared in its final form. He requested permission to file such instrument at a later date.

SECOND SUPPLEMENTAL ORDER

The California Oregon Power Company having applied to the Railroad Commission for permission to issue bonds and debentures, as indicated in the foregoing opinion, a public hearing having been held before Examiner Fankhauser, the Commission having considered the record in this proceeding and being of the opinion that the money, property or labor to be procured or paid for by the issue of the bonds and debentures herein authorized is reasonably required by applicant for the purposes herein stated, and that such purposes are not in whole or in part reasonably chargeable to operating expense or to income, and that this third supplemental application should be granted subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:-

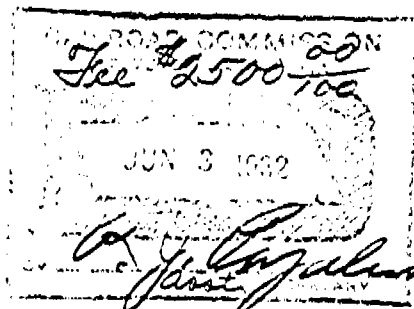
1. The California Oregon Power Company, after the effective date hereof and prior to July 1, 1932, may issue, sell and deliver at not less than 87 percent of their face value and accrued interest, its refunding mortgage gold bonds, 6-1/2% Series due 1942, in the principal amount of \$4,000,000.00 and may issue, sell and deliver to the trustee under its refunding mortgage, its refunding mortgage gold bonds, 6% Series due 1962, in such an amount as may be required for the conversion of the said 6-1/2% Series of 1942 bonds into said 6% Series of 1962 bonds on a par for par basis, and issue, sell and deliver temporary certificates for said bonds to be exchanged for said bonds when issued.

2. The California Oregon Power Company may, after the effective date hereof and prior to July 1, 1932, issue, sell and deliver at not less than 97 per cent of their face value and accrued interest, \$3,000,000.00 principal amount of its five and one half percent gold debentures, Series "A", and issue, sell and deliver temporary certificates for said bonds to be exchanged for said debentures, when issued.
3. The California Oregon Power Company shall use the proceeds realized from the sale of the said bonds and debentures, to pay in whole or in part, \$3,000,000. of general and refunding mortgage bonds, to pay a current indebtedness incurred to retire underlying bonds, to pay for additions and betterments, and to pay the cost of constructing additions and betterments to its plants and properties during 1932, provided that only such construction expenditures may be financed through the use of the aforesaid proceeds as are properly chargeable to fixed capital accounts under the uniform system of accounts prescribed by this Commission or other governmental authority having jurisdiction over applicant's operations; and provided further, that none of said proceeds may be used to pay the premium on the said general and refunding mortgage bonds.
4. For accounting purposes The California Oregon Power Company may add the unamortized discount and expense on the said \$3,000,000.00 of general and refunding bonds to the discount and expense arising from the

sale of said \$3,000,000.00 of debentures, provided that this Commission will not regard said unamortized discount and expense as part of the cost of the money obtained through the issue and sale of said \$3,000,000 of debentures.

5. The California Oregon Power Company shall keep such record of the issue and sale of the 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 insofar as applicable, is made a part of this order.
6. The authority herein granted to issue said bonds and said debentures 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 Twenty-five Hundred (\$2,500.00) Dollars; and when this Commission has authorized the company to execute a trust indenture to secure the payment of said bonds.
7. Unless otherwise herein provided, the authority herein granted will become effective twenty(20) days after the date hereof.

DATED at San Francisco, California, this 23rd day of May, 1932.



Fee 20716

Leon [unclear]
W. B. Hayes
Fred G. Stebbins
Commissioners.