

ORIGINAL

Decision No. 25609

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
The California Oregon Power Company,
a corporation, for authority to re-
classify its outstanding common stock
and to issue certificates for such
reclassified stock and to issue
\$3,500,000 principal amount of serial
notes and for such other order as may
be appropriate.

Application No. 25033

Erobeck, Phleger and Harrison, by
James S. Moore, Jr., for Applicant

Alvin A. Kurtz, for Public Utilities
Commissioner of Oregon, interested party.

BY THE COMMISSION:

O P I N I O N

On May 29, 1942, The California Oregon Power Company
filed with the Railroad Commission of the State of California
the above entitled application. A supplemental application
was filed June 24, 1942.

A similar application and supplement thereto was
filed with the Public Utilities Commissioner of Oregon. The
applications came on regularly for hearing pursuant to notice
at 10 a.m. on the 6th day of July, 1942, before Messrs. W. C.

Fankhauser, Examiner for the Railroad Commission of the State of California, and J. L. Kennedy, Examiner for the Public Utilities Commissioner of Oregon, jointly, in the office of the Railroad Commission of the State of California.

The Railroad Commission is asked to authorize The California Oregon Power Company to issue certificates for its reclassified stocks in exchange for its then outstanding stocks and to issue \$3,500,000 of serial notes, under the terms of the Loan Agreement on file in this proceeding as Exhibit 1.

The California Oregon Power Company, hereinafter sometimes referred to as applicant, is a corporation organized and existing under the laws of the State of California. It owns and operates public utility electric and water properties situated in the States of Oregon and California.

Applicant now has outstanding the following securities:

First Mortgage Bonds, 4% Series, due April 1, 1966	\$13,500,000
5½% Debentures, due October 1, 1942	5,500,000
7% Preferred stock, cumulative, \$100 par value per share	25,830 shares
6% Preferred stock, cumulative, Series of 1927, \$100 par value per share	57,032 shares
6% Preferred stock, cumulative, \$100 par value per share	10,000 shares
Common stock, without par value	82,061 shares

The stated value of the common stock is reported at \$6,847,100.

Standard Gas and Electric Company owns all of applicant's outstanding common stock. It also owns additional securities of applicant as follows:

5½% Debentures	\$2,375,000
7% Preferred stock	445,700
6% Preferred stock	220,700
6% Preferred stock, Series of 1927	1,127,100
Total Debentures and Stock	<u>\$4,168,500</u>

As of April 30, 1942, applicant reports assets and liabilities as follows:

ASSETS

Utility Plant:		\$38,995,506.21
Property, plant & equipment	\$37,410,339.44	
Intangibles	<u>1,585,166.77</u>	
Other Investments		9,847.81
Current Assets:		<u>1,412,258.57</u>
Cash on hand and demand deposits	\$ 575,823.09	
Accounts and notes receivable—Customers (including installment accounts)	463,596.16	
Reserve for doubtful accounts and notes	80,009.85	
Materials and supplies (at cost)	360,091.93	
Indebtedness of affiliated company	36,113.02	
Accounts receivable - Other	31,118.58	
Prepayments	<u>25,525.64</u>	
Deferred Charges:		1,317,158.44
Unamortized debt discount and expense	\$ 1,269,932.18	
Preliminary costs of project abandoned	33,766.84	
Other deferred charges	<u>13,459.42</u>	
Discount on Capital Stock		353,503.35
Capital Stock Expense		<u>262,363.17</u>
Total Assets		<u>\$42,350,637.55</u>

LIABILITIES

Capital Stock		\$16,423,300.00
First Mortgage Bonds		13,500,000.00
Debentures		5,500,000.00
Current Liabilities:		<u>1,233,938.02</u>
Accounts payable	\$ 83,586.42	
Customers' deposits	60,657.76	
Accrued salaries and wages	49,121.95	
Accrued taxes	1,004,047.92	
Accrued interest	79,929.09	
Other accrued liabilities	3,809.69	
Indebtedness to affiliated companies	<u>2,785.19</u>	
Deferred Liabilities:		181,801.31
Customers' advances for construction	\$ 139,933.36	
Other	<u>41,867.95</u>	
Reserves:		3,305,963.72
Retirement	\$ 3,259,751.17	
Amortization of limited-term investment	38,773.76	
Other	<u>7,438.79</u>	
Contributions in Aid of Construction		68,178.49
Earned Surplus		<u>2,077,456.01</u>
Total Liabilities		<u>\$42,350,637.55</u>

Applicant has filed in this proceeding as Exhibit B a report prepared by the Public Utility Engineering and Service Corporation, which report contains an estimate of the accrued depreciation in its properties as of December 31, 1940. The accrued depreciation is calculated on a 6% sinking fund basis. The report shows that applicant's depreciation reserve, or retirement reserve, as designated on its balance sheet, was deficient by the sum of \$755,805.55. It proposes to make up this deficiency by transferring to its depreciation reserve \$261,245.47 from capital surplus and \$494,560.08 from earned surplus. We believe that these transfers should be made but are making no finding that after said transfers applicant's depreciation reserve is adequate.

As shown, applicant's \$5,500,000 of debentures mature on October 1, 1942. For the purpose of refunding these debentures and providing applicant with capital surplus and reduction surplus to make certain adjustments in its balance sheet accounts, Standard Gas and Electric Company has offered, under certain conditions, to contribute to applicant \$2,375,000 of debentures and all of the \$1,793,500 of preferred stock which it owns. Applicant proposes to amend its Articles of Incorporation and, as amended, provide that the authorized amount of its common stock shall be 400,000 shares of the par value of \$25 per share instead of 150,000 shares without par value. Standard Gas and Electric Company will, without effecting a change in the stated value of applicant's common stock, surrender for cancellation 4,061 shares of common stock. The remaining 78,000 shares of common stock without par value,

which will remain outstanding after the surrender and cancellation of said 4,061 shares, are to be reclassified into four shares of common stock of the par value of \$25 each.

At the same time it is proposed that the voting power of the shares of applicant's stock be changed from one vote per share to one vote for each \$25 par value of shares, resulting in the preferred stock to remain outstanding having four votes per share. Applicant intends to notify the holders of the preferred stock of the change in voting rights, and has offered to reissue to stockholders requesting the same, new preferred stock certificates in exchange for the certificates now outstanding. The new certificates will show the change in the voting rights.

Through the surrender and cancellation of \$2,375,000 of debentures, applicant would create a capital surplus of \$2,375,000. Through the \$1,793,500 par value of preferred stock, which Standard Gas and Electric Company has offered to cancel, applicant would create a reduction surplus of \$487,096.65, a capital surplus of \$353,503.35, and add \$952,900 to the stated value of the common stock. Through this transaction the stated value of the company's common stock would be increased from \$6,847,100 to a par value of \$7,800,000, while the stated value of all of applicant's stock would be reduced from \$16,433,300 to \$15,592,700.

Exhibit 4 filed in this proceeding is a balance sheet of applicant as of April 30, 1942, made up as suggested by the Public Utilities Commissioner of Oregon. This balance sheet, among other things, shows a charge of \$978,381.04 to Account

100.5, Utility Plant Acquisition Adjustments, and a charge of \$3,363,572.92 to Account 107, Utility Plant Adjustments. Some of the items which have been charged to these accounts are in issue in proceedings pending before the Federal Power Commission and the Public Utilities Commissioner of Oregon. We are not ready to concede at this time that any of applicant's outstanding securities should be allocated to the amounts charged to Account 107. Proceeding on the theory that the amounts charged to Account 100.5 will be amortized over a period of years, we find the depreciated cost of applicant's properties, including in such depreciated cost its investment in nonutility property, and its net current assets, to be \$32,103,421.35. Against this depreciated cost, applicant has outstanding \$13,500,000 of bonds, \$3,500,000 of notes (if issued) and \$7,792,700 of preferred stock, or a total of \$24,792,700. Deducting the latter sum from the depreciated cost leaves a balance of \$7,310,721.35 for the common stock, assuming that Standard Gas and Electric Company makes the contributions heretofore mentioned. In arriving at this amount, unamortized bond discount and expense and discount and expense on preferred stock was not regarded as an asset. The amounts that applicant will finally be directed to charge to Account 100.5, Utility Plant Acquisition Adjustments, and to Account 107, Utility Plant Adjustments, have not yet been determined. While the issue of \$25 par value common stock as applied for does not seem appropriate at this time, we will permit the issuance of 312,000 shares of common stock without

par value, subject to the conditions of the following order. When it is determined what charges should be made to said Accounts 100.5 and 107, the situation can, if necessary, be reviewed. If it is then found that the equity for the common stock is less than \$7,800,000, applicant should make up the difference between said equity and said \$7,800,000 if it desires to issue par value stock in that amount by the investment of income not obtained through the issuances of stock, bonds, notes or other evidences of indebtedness.

Applicant asks permission to issue at par, \$3,500,000 of serial notes, maturing in aggregate principal amounts of \$175,000 in twenty semi-annual installments, commencing six months from date and continuing semi-annually thereafter to and including the tenth year from their date. Notes in the face amount of \$1,750,000 maturing six months from their date and subsequently, to and including the fifth year from their date, bear interest at $2\frac{1}{2}\%$ per annum, and \$1,750,000 of notes maturing five and one-half years after their date and subsequently, to and including the tenth year from their date, bear interest at the rate of $2-\frac{7}{8}\%$ per annum. The interest is payable semi-annually. Applicant will use \$3,125,000 of the proceeds to pay debentures due on October 1, 1942. It will use the remainder of the proceeds to pay \$17,500 of expenses incident to the redemption of its debentures and the issue of the notes, to pay \$14,322.92 duplicate interest, to

pay \$12,500 expenses to reclassify its stock and \$330,677.08 to reimburse its treasury because of income expended for the acquisition of properties. The order herein will authorize the issue of the notes.

ORDER

The Commission having considered the testimony submitted at the hearing had on this application and it being of the opinion that the money, property or labor to be procured or paid for by The California Oregon Power Company through the issue of the stock and serial notes herein authorized is reasonably required by said The California Oregon Power Company to refund outstanding stock and debentures and for the reimbursement of its treasury because of income expended for the acquisition of properties; that the expenditures for said purposes other than the payment of expenses incident to the redemption of debentures; issue of the notes; payment of duplicate interest, and payment of expenses to reclassify common stock, are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:

1. The California Oregon Power Company may, after the payment of the fee of \$375 required by Section 57 of the Public Utilities Act and on or before November 1, 1942, issue

and sell at not less than par, \$3,500,000 of serial notes, said notes to be issued and sold subject to substantially the same terms and conditions as are set forth in the agreement filed in this proceeding as Exhibit 1, provided Standard Gas and Electric Company contributes to The California Oregon Power Company for cancellation, \$2,375,000 of its 5½% debentures, due October 1, 1942.

2. The California Oregon Power Company shall use the proceeds realized through the issue of said \$3,500,000 of serial notes to pay \$3,125,000 of debentures, due October 1, 1942; to pay expenses incident to the redemption of said debentures and the issue of said serial notes; to pay duplicate interest; to pay expenses arising from the reclassification of its stock, and to reimburse its treasury because of income expended for the acquisition of properties.

3. The California Oregon Power Company may, after the effective date hereof and on or before December 31, 1942, issue not exceeding 312,000 shares of common stock without par value in exchange for 78,000 shares of common stock without par value, provided that the authority to issue the said 312,000 shares of stock without par value will not become effective until Standard Gas and Electric Company has surrendered to The California Oregon Power Company, the 17,935 shares of The California Oregon Power Company preferred stock and 4,061 shares of common stock without par value now held by it nor until The California Oregon Power Company has amended its Articles of Incorporation authorizing the issue

of said shares of stock without par value and providing that each shareholder of shares of preferred stock be entitled to one vote for each Twenty-five (\$25.00) Dollars par value of stock held by such shareholder, and provided further that applicant has notified the owners of its outstanding preferred stocks of such change in voting rights, and that it will upon a stockholder's request, and without any expense to the stockholders, issue new preferred stock certificates, showing the change in voting rights, in exchange for the preferred stock certificates now outstanding.

4. The California Oregon Power Company shall file with the Railroad Commission reports as required by the Commission's General Order No. 24-A, which order insofar as applicable is made a part of this order.

5. Within thirty (30) days after the issue of the serial notes herein authorized, The California Oregon Power Company shall file with the Railroad Commission two complete copies of the agreement under which said serial notes were issued and sold.

6. The California Oregon Power Company shall file with the Railroad Commission within thirty (30) days after the issue of said 312,000 shares of common stock without par value

a certified copy of its amended Articles of Incorporation, together with a copy of the notice to the owners of its outstanding preferred stock offering to issue to them new preferred stock certificates in exchange for the preferred stock certificates now held by them.

Dated at Los Angeles, California, this 28th day of July, 1942.

Justus J. Reamer
Ray L. Cline
H. B. Park
Francis R. Havenner
Richard Clarke
Commissioners.

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RAILROAD COMMISSION
STATE OF CALIFORNIA
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