

Decision No. 37401

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

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:

Application  
No. 26366

(1) The execution of a new First Mortgage and Deed of Trust covering its presently owned and hereafter acquired fixed properties, and

(2) The issue and sale of \$13,500,000 principal amount of First Mortgage Bonds, Series due November 1, 1974.

BY THE COMMISSION:

O P I N I O N

The California Oregon Power Company asks permission to issue and sell \$13,500,000 of First Mortgage Bonds, Series due November 1, 1974, and to execute a First Mortgage and Deed of Trust to secure the payment of the bonds. A copy of the company's proposed First Mortgage and Deed of Trust was filed with this application on September 25.

The California Oregon Power Company is a corporation organized and existing under the laws of the State of California and is a public utility subject to the Public Utilities Act. It owns and operates public utility electric and water properties situate in California and Oregon. For 1943, the company reports operating revenues of \$5,874,031.42, segregated as follows:

Electric:		\$5,557,036.80
Oregon	\$3,728,534.45	
California	<u>1,828,502.35</u>	
Water:		\$ 316,994.62
Oregon	\$ 288,100.23	
California	<u>28,894.39</u>	

Applicant's investment in utility plant, as of June 30, 1944, is reported at \$36,265,846.30, segregated as follows:

<u>Classification</u>	<u>Total</u>	<u>Electric</u>	<u>Water</u>
Plant in Service:			
Hydraulic Production plant	\$14,336,144.03	\$14,336,144.03	
Source of supply, pumping, and purification plant	225,792.54		\$ 225,792.54
Transmission plant	7,183,710.09	7,079,375.03	104,335.06
Distribution plant	11,354,216.36	9,353,042.46	2,001,173.90
General plant	1,294,693.25	1,287,895.58	6,797.67
Intangibles	*352,471.94	352,471.94	
Total	<u>34,747,028.21</u>	<u>32,408,929.04</u>	<u>2,338,099.17</u>
Plant under construction	540,437.05	510,123.59	30,313.46
Total	<u>35,287,465.26</u>	<u>32,919,052.63</u>	<u>2,368,412.63</u>
Plant acquisition adjustments	<u>978,381.04</u>	<u>828,684.97</u>	<u>149,696.07</u>
Total	<u>\$36,265,846.30</u>	<u>\$33,747,737.60</u>	<u>\$2,518,108.70</u>

\*Intangibles comprise the following:

Organization	\$ 32,302.61
Franchises and Consents	4,568.42
Limited-term investment- Link River Dam	<u>315,600.91</u>
Total	<u>\$352,471.94</u>

As of June 30, 1944, applicant's reserve for accrued depreciation amounted to \$4,903,158.21 and its reserve for amortization of limited-term investment to \$165,657.44.

As of June 30, 1944, applicant had outstanding, capital stock having a stated value of \$15,592,700, segregated as follows:

7% cumulative preferred, 24,373 shares, par value \$100 each (noncallable)	\$ 2,437,300
6% cumulative preferred, 7,793 shares, par value \$100 each (noncallable)	779,300
6% cumulative, Series of 1927, 45,761 shares, par value \$100 each, call- able at \$110 per share	4,576,100
Common stock, 312,000 shares without par value, stated value	<u>7,800,000</u>
Total	<u>\$15,592,700</u>

Applicant's funded debt of \$16,125,000 consists of \$13,500,000 of First Mortgage Bonds, 4% Series due 1966, and \$2,625,000 of Serial Notes (exclusive of \$350,000 due within one year), payable in the amount of \$175,000 semi-annually from August 13, 1945 to August 13, 1952. The notes are unsecured.

Reference has already been made to applicant's depreciation reserve. Its earned surplus on June 30, 1944 was \$1,443,659.98. In addition, applicant's balance sheet shows a capital surplus of \$403,177.29 and a reduction surplus of \$487,096.65.

As said, applicant has outstanding, \$13,500,000 of First Mortgage Bonds, 4% Series due 1966. These bonds were issued pursuant to Railroad Commission Decision No. 28633, dated March 16, 1936, in Application No. 20405, and pursuant to Order No. 3269, as amended, of the Public Utilities Commissioner of Oregon. The bonds are presently redeemable upon payment of the

principal amount thereof, accrued interest thereon, and a premium of  $5\frac{1}{2}\%$  of the principal amount thereof. It is applicant's intention to call the bonds for redemption and refund the same through the issuance of \$13,500,000 of new First Mortgage Bonds, Series due November 1, 1974. The new bonds will be dated November 1, 1944.

Applicant is a subsidiary of Standard Power and Light Corporation and Standard Gas and Electric Company, registered holding companies. It is, therefore, required to file with the Securities and Exchange Commission an application for permission to issue the new bonds. Under Rule U-50 of said Commission, the bonds must be sold at competitive bidding. The bids have not yet been received. Applicant is not now in a position to advise the Railroad Commission at what price it will sell the bonds or the coupon rate of the bonds or the exact redemption prices. Applicant does state, however, in its application that the bonds will bear interest at such rate as will result in the "lowest annual cost of money" to applicant, as defined in the Statement of Terms and Conditions Relating to Proposals for the purchase of said bonds, a copy of which is filed in this application as Exhibit "A." The bonds will be redeemable at any time on payment of the principal, accrued interest and a premium determined in accordance with the formula set forth in Section 8 of Exhibit "A." Under such formula, the maximum initial redemption price will be not more than 6.75% of the principal amount of the bonds in excess of the price received by applicant for the bonds, thereafter decreasing progressively until one year prior to maturity, after which there will be no premium. Applicant states that it will

accept no bid based on an interest rate exceeding  $3\frac{1}{2}\%$  per annum without further application to the Commission.

Applicant asks permission to issue and sell \$13,500,000 of its First Mortgage Bonds, Series due November 1, 1974, at a price of not less than 100% of the principal amount thereof, bearing interest at not to exceed  $3\frac{1}{2}\%$  per annum. The Order herein will authorize the issue and sale of \$13,500,000 of bonds at an effective interest rate (for a thirty-year maturity) of not to exceed  $3\frac{1}{2}\%$  for the purpose of refunding its outstanding \$13,500,000 of 4% bonds.

Applicant's balance sheet as of June 30, 1944 shows unamortized bond discount and expense of \$1,117,677.36. Applicant proposes to reduce its bond discount and expense by an amount approximately equal to its tax savings because of the bond refunding and charge the remainder to Earned Surplus. It will charge to current income, the duplicate interest which will be incurred on the old bonds pending redemption thereof. It proposes to amortize over the life of the old bonds (to April 1, 1966), the redemption premium and the cost of redemption to be incurred upon the redemption of the old bonds, and to amortize over the life of the new bonds, the cost and expenses incurred and the premium, if any, received in connection with the issuance thereof. We have no objection to the company's proposed amortization program for accounting purposes. We reserve the right to determine hereafter whether the charges necessary to amortize the premium paid on bonds redeemed should be included in determining the cost of money to The California Oregon Power Company.

Applicant, on September 25, filed with the Commission a copy of its proposed First Mortgage and Deed of Trust. Since then a number of changes were made in the trust indenture. A revised copy of the trust indenture was filed on October 13. We find the indenture to be in satisfactory form.

O R D E R

The Commission has considered the requests of The California Oregon Power Company and is of the opinion that this is not a matter on which a hearing is necessary; that the money, property or labor to be procured or paid for through the issue of said \$13,500,000 of bonds is reasonably required by The California Oregon Power Company for the purpose specified herein; that the expenditures for said purpose, other than the use of the accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted as herein provided, therefore

IT IS HEREBY ORDERED as follows:

1. The California Oregon Power Company may, after the effective date hereof and on or before December 31, 1944, issue and sell, at a price that will result in an effective interest rate of not to exceed  $3\frac{1}{2}\%$  per annum, for a thirty-year maturity, not exceeding \$13,500,000 principal amount of First Mortgage Bonds, Series due November 1, 1974, the redemption premium on said bonds to be computed in accordance with the formula set forth in Exhibit "A" on file in this application, and may use the proceeds (other than accrued interest which may be used for general cor-

porate purposes) together with other funds, if necessary, to redeem its First Mortgage Bonds, 4% Series due 1966, in the principal amount of \$13,500,000 and pending the preparation and delivery of definitive bonds, applicant may execute, authenticate and deliver temporary bonds in lieu of such definitive bonds, and thereafter exchange such temporary bonds for definitive bonds.

2. The California Oregon Power Company may, after the effective date hereof and prior to December 31, 1944, execute a First Mortgage and Deed of Trust substantially in the same form as that filed in this application on October 13, 1944.

3. The California Oregon Power Company shall charge to its Earned Surplus Account, the unamortized balance of debt discount and expense applicable to its outstanding First Mortgage Bonds, 4% Series due 1966, and prior issues remaining on its books as of December 31, 1944, after the special amortization, in an amount equal to estimated tax savings, and shall charge against current income the duplicate interest charge which will be incurred pending the redemption of said \$13,500,000 of First Mortgage Bonds, 4% Series due 1966. The redemption premium and cost of redeeming said \$13,500,000 of bonds may be charged to Account 140, Unamortized Debt Discount and Expense, and amortized on or before April 1, 1966, the maturity date of said \$13,500,000 of First Mortgage Bonds, 4% Series due 1966. Any discount, expense or premium applicable to the First Mortgage Bonds, Series due November 1, 1974, may be amortized over the life of said bonds.

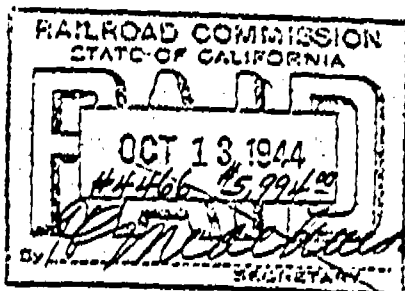
4. The authority herein granted will become effective when The California Oregon Power Company has paid the fee prescribed by Section 57 of the Public Utilities Act.

5. The California Oregon Power Company shall file with the Railroad Commission within thirty (30) days after the sale of said bonds, a verified copy of the bond sale agreement, and two verified copies of its First Mortgage and Deed of Trust executed under the authority herein granted.

6. The California Oregon Power Company shall file with the Railroad Commission, on or before January 31, 1945, a report containing the following data:

- a. Principal amount of First Mortgage Bonds, Series due November 1, 1974, sold.
- b. Price received for said bonds.
- c. Purposes for which proceeds other than accrued interest were expended.
- d. Premium paid on bonds redeemed.
- e. Duplicate interest paid.
- f. Expenses in detail incurred because of the bond refunding.
- g. Estimate of tax savings.

Dated at San Francisco, California, this 13<sup>th</sup> day of October, 1944.



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*Francis D. Havens*  
*Thomas D. Orr*  
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*Ira A. Linn*  
 Commissioners.