ORIGINAL

Decision No. 40867

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of THE CALIFORNIA OREGON POWER COMPANY for an order of the Public Utilities Commission of the State of California authorizing the issuance of certain securities.	Application No. 28798

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

O P I N I O N

In this application, The California Oregon Power Company asks permission to issue, for the purposes hereinafter stated, 42,000 shares ($4,200,000 par value) of preferred stock, 4.70% series, and 42,000 shares ($840,000 par value) of common stock, and to deviate from the provisions of the uniform system of accounts and amortize stock discount and expenses.

The California Oregon Power Company, hereinafter sometimes referred to as Applicant, is a corporation organized and existing under the laws of California. It is engaged in the production, transmission, distribution and sale of electricity and the development and distribution of water in the southern part of Oregon and in the northern part of California. For the three years ending December 31, 1946, and the year ending August 31, 1947, Applicant reports the results of its operations as follows:

	1944	1945	1946	1947
Operating revenue	$6,103,587	$6,178,266	$6,971,226	$7,410,595
Operating expense	3,023,377	4,294,843	4,829,003	5,207,155
Net operating revenue	3,080,210	1,883,423	2,142,223	2,203,440
Rent for electric plant	239,793	241,438	241,294	242,014
Net operating income	2,840,417	1,641,985	1,900,929	1,961,426
Other income	30,017	14,728	19,908	18,119
Gross income	2,870,434	1,656,713	1,920,837	1,979,545
Income deductions:				
Interest	648,828	499,063	498,892	484,350
Amortization of debt discount and expense	1,022,890	77,779	71,079	52,365
Miscellaneous	18,551	20,078	14,238	48,031
Total deductions	1,690,269	596,920	584,209	584,746
Net income	$1,180,165	$1,059,793	$1,336,628	$1,394,799

During each year, Applicant paid $491,935 in dividends on its preferred stocks and $468,000 on its common stock, or a total of $959,935.

Applicant as of August 31, 1947, reports assets and liabilities as follows:

<u>Assets</u>

Utility plant		$40,427,070
Electric plant	$37,746,371	
Water plant	2,680,699	
Investments		691,343
Current Assets		1,746,972
Cash	745,950	
Accounts receivable	449,932	
Materials and supplies	527,729	
Prepayments	23,361	
Deferred charges		144,088
Expenses on capital stock		238,788
Discount on capital stock		176,333
Total Assets		$43,424,594

Liabilities

Capital stock		$15,959,000
Common stock	$8,160,000	
Premium on capital stock	6,300	
Seven percent preferred stock	2,437,300	
Six percent preferred stock	779,300	
Six percent, series of 1927, preferred stock	4,576,100	
Long-term debt		17,100,000
First mortgage 3-1/8% bonds due November 1, 1974	13,500,000	
Notes - due December 31, 1950	3,600,000	
Current liabilities		2,130,823
Accounts payable	641,723	
Accrued taxes	1,331,849	
Accrued interest	157,251	
Deferred credits		321,739
Unamortized premium on debt	102,676	
Customers' advances for construction	175,609	
Other	43,454	
Reserves		6,927,704
Depreciation	6,736,290	
Amortization of limited-term investment	186,582	
Other	4,832	
Contributions in aid of construction		120,800
Earned surplus		864,528
Total Liabilities		$43,424,594

Applicant's Articles of Incorporation authorize a total of 945,761 shares of stock, of which 195,761 shares of the par value of $100 each are preferred stock, and 750,000 shares of the par value of $20 per share are common stock. Of the preferred stock, 24,373 shares are a series known as 7% preferred stock, 7,793 shares a series known as 6% preferred stock, and 45,761 shares a series known as 6% preferred stock, series of 1927. The remaining 117,834 shares of preferred stock are by the Articles of Incorporation designated as unallotted shares which Applicant's Board of Directors may, within the limitations stated, cause to be issued in series with such distinctive designation, dividend rates, conversion rights, voting rights and redemption prices as the Board of Directors may from time to time fix and determine.

Applicant's 7% preferred and 6% preferred stocks are noncallable. The 6% preferred stock, series of 1927, is at the option of Applicant, on sixty days' notice, redeemable at par plus a premium of $10 per share and accrued dividends.

Applicant intends to refund or redeem its outstanding $4,576,100 par value of 6% preferred stock, series of 1927. To effect the retirement of said 6% preferred stock, Applicant proposes to create out of the unallotted shares of preferred stock authorized by its Articles of Incorporation, a new series to be designated preferred stock, 4.70% series, to consist of 42,000 shares to bear dividends at the rate of 4.70% cumulative from October 1, 1947. The shares are to be redeemable upon the notice provided in Applicant's Articles of Incorporation at $3.50 per shares in excess of the public offering price if redeemed on or before September 30, 1952; at $2.50 per share in excess of said offering price if redeemed thereafter and on or before September 30, 1957; at $1.50 per share in excess of said offering price if redeemed thereafter and on or before September 30, 1962, and at the public offering price if redeemed thereafter.

Applicant proposes to offer the 42,000 shares of 4.70% preferred stock to the holders of the 45,761 shares of 6% preferred stock, series of 1927, in exchange therefor share for share. In connection with such exchange, Applicant will pay the holders of the 6% preferred stock, series of 1927, who exchange the same for the 4.70% preferred stock, a sum equal to the difference between $110 per share, the redemption price of the 6% preferred stock, series of 1927, and the public offering price of the 4.70% preferred stock, together with an amount equal to the difference in dividends borne by the 6% preferred stock, series of 1927, and those payable on the 4.70% preferred stock for the period from October 1, 1947, to the date of redemption of the unexchanged 6% preferred stock, series of 1927. The exchange period expires at twelve o'clock noon, Pacific Standard Time, on November 29, 1947.

Applicant is presently negotiating with Messrs. Merrill Lynch, Pierce, Fenner & Beane for the sale of the shares of the 4.70% preferred stock not exchanged, and 42,000 shares (par value $840,000) of common stock. It asks permission to sell the 4.70% preferred stock at not less than par and the common shares at not less than $22 per share. To the extent that the proceeds of the stock issues exceed the par value of the 6% preferred stock exchanged or redeemed, Applicant will use the proceeds to reimburse its treasury for additions and betterments. Applicant has agreed to pay the underwriters a commission of $1.25 per share on the 42,000 shares of the 4.70% preferred stock plus the sum of $2 per share for such thereof as shall be purchased by the underwriters or which shall be exchanged through the medium of authorized dealers whose names shall have been shown on the acceptance of the exchange offer as having solicited the exchange. The common shares will be resold at $1.50 per share above the price to Applicant.

Applicant proposes to charge to earned surplus the redemption premium and the discount and expense applicable to the unexchanged 6% preferred stock, series of 1927, together with the duplicate dividends payable in connection with the redemption of the 6% preferred stock, series of 1927. It asks permission to charge to Account 146, Other Deferred Debits, the following sums:

(a) The difference between $10 per share on the exchanged 6% preferred stock, series of 1927, being the equivalent of the redemption premium thereof and the public offering price of the 4.70% preferred stock;

(b) An amount equal to the difference in dividends borne by the 6% preferred stock, series of 1927, and those payable on the 4.70% preferred stock for the period from October 1, 1947, to the date of redemption of the unexchanged 6% preferred stock, series of 1927;

(c) The sum of $4.567 per share on the exchanged 6% preferred stock, series of 1927, being the discount and expense attributable thereto.

Applicant asks permission to amortize the amounts charged to Account No. 146 over a period of not to exceed ten years by annual charges to earned surplus, such charges in no event to be less than the difference in dividends on the 42,000 shares of 4.70% preferred stock and those which would be payable on the number of shares of the 6% preferred stock, series of 1927, with the option to Applicant to accelerate such amortization. Not until the exchange offer expires will one know how much would be charged to Account No. 146 under Applicant's proposal. The question has arisen whether the amount so charged should be amortized over a period of ten or five years. When the amount which Applicant proposes to charge to Account No. 146 is known, the Commission will by supplemental order fix the period of amortization.

On September 30, 1947, Applicant's 45,761 shares of 6% preferred stock, series of 1927, were held by about 2,580 holders. Of these, 2,300 owning more than 38,750 shares of said stock, reside in the States of California, Oregon and Washington. More than 1,300 of said holders, owning more than 20,000 shares, reside in the area served by Applicant. Applicant desires to give holders of said shares of preferred stock the opportunity to exchange their stock instead of buying the 4.70% preferred stock. It believes that the exchange can be expedited by exempting the issue from the provisions of the Commission's order in Decision No. 38614, dated January 15, 1946. Considering the conditions under which Applicant proposes to offer its 4.70% preferred stock to the holders of said preferred stock, the Commission finds that the sale of said shares of stock should be exempt from the provisions of said decision.

Based on present tax laws, the refunding and redemption of Applicant's 6% preferred stock, series of 1927, as herein proposed, will result in an annual dividend saving of about $66,000. The gross saving will amount to about $77,000. Further, such refunding will improve Applicant's capitalization in that the outstanding preferred stock will be reduced by $376,100 and the investment in common stock increased.

O R D E R

The Commission has considered the evidence submitted in this application and is of the opinion that the money, property or labor to be procured or paid for by the issue of 42,000 shares of preferred stock, 4.70% series, and 42,000 shares of common stock is reasonably required by The California Oregon Power Company for the purposes herein stated, which purposes 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 issue and sell, on or before February 15, 1948, at not less than the par value thereof, 42,000 shares of preferred stock, 4.70% series, provided said shares of stock be first offered to the holders of Applicant's 6% preferred stock, series of 1927, as proposed in this application. Applicant shall use the proceeds from said shares of stock to redeem in part its 6% preferred stock, series of 1927.

2. The California Oregon Power Company may issue and sell, on or before February 15, 1948, at not less than $22 per share, 42,000 shares of common stock and use the proceeds to retire in part the 6% preferred stock, series of 1927, and reimburse its treasury because of income or other moneys not obtained from the sale of stocks, bonds or notes, expended for additions and betterments to its properties.

3. The sale of said shares of preferred and common stock is exempt from the provisions of the order in Decision No. 38614, dated January 15, 1946.

4. The California Oregon Power Company shall, within sixty (60) days after the redemption of its 6% preferred stock, series of 1927, file with the Commission a report showing (a) the number of shares of stock issued under the authority herein granted, (b) the consideration received for said shares of stock, and (c) the purposes for which it expended the proceeds from the issue of said shares of stock.

5. Within three (3) months after the redemption of said 6% preferred stock, series of 1927, The California Oregon Power Company shall file with the Commission a statement showing in detail the expenses incident to the issue and sale of the shares of preferred and common stock herein authorized.

6. The authority herein granted is effective upon the date hereof.

Dated at San Francisco, California, this 4th day of November, 1947.

Harold P. Huls
Justus F. Craemer
Ira H. Rowell
R. E. Mittelstaedt

Commissioners.