

\$12,000,000 and \$15,000,000. Among other things, it is, and for some time has been, engaged in developing hydroelectric power sites along the North Umpqua River in Oregon, and it now is engaged in constructing production facilities at its Fish Creek and Clearwater plants and certain transmission lines. In addition, it reports that it has filed, or is in process of filing, applications with the Federal Power Commission and the Hydroelectric Commission of Oregon for the construction of the Lemolo plants in the North Umpqua Project area which will have a combined capacity of 60,000 kilowatts with completion estimated in December, 1954, for the Lemolo No. 1 and in December, 1955, for the Lemolo No. 2, and for the construction of its Big Bend No. 2 plant, on the Upper Klamath River, with a capacity of 50,000 kilowatts. In addition, it has filed an application with the Federal Power Commission for a preliminary permit to conduct detailed investigations for the utilization of the available waters of the McCloud River and its tributaries, which it estimates have a minimum potential of 200,000 kilowatts, and it expects shortly to request authorization to construct its McCloud No. 1 plant.

In view of the magnitude and the long-range aspect of its construction plans for developing hydroelectric power, applicant is faced with a continuing program of obtaining funds from the issue of securities. It reports that the success of its efforts will depend on the maintenance of a proper balance between debt and equity capital, with a substantial part of its new money requirements being provided through the issue and sale of shares of common stock.⁽¹⁾ It

(1) Applicant's capital ratios as of June 30, 1952, and pro forma, giving effect to the proposed issues, are as follows:

	<u>June 30, 1952</u>	<u>Pro Forma</u>
Debt -		
Bonds	41.8%	50.5%
Notes	<u>14.6</u>	<u>-</u>
Sub-total	56.4	50.5
Preferred stock	10.0	9.8
Equity capital	<u>33.6</u>	<u>39.7</u>
Total	<u>100.0%</u>	<u>100.0%</u>

intends to invite bids for the purchase of the bonds now proposed to be issued but it is of the opinion that a continuing flow of equity funds, under the most favorable conditions, can best be assured by the sale of its shares of common stock through negotiation, rather than at competitive bidding.

It appears that applicant bases its position with respect to financing with shares of common stock, in part, on previous experience. The record shows that in 1946 Standard Gas and Electric Company, then the owner of all applicant's common stock, in order to dispose of its holdings, offered such stock for sale at competitive bidding but rejected all bids as being inadequate. A year later an offer to sell common stock was withdrawn because market conditions had so deteriorated it was considered unlikely a satisfactory bid would be received, the stock being sold later in 1947 under negotiated conditions at \$20.35 a share. In the spring of 1948, in connection with an offering of 100,000 shares, three bidding syndicates had been formed but one withdrew the day before the date fixed for opening the bids. The shares were sold for \$19.91 each, but applicant asserts the price was not considered satisfactory and was accepted only because of the need for money to meet capital requirements. Information on file with the Commission shows that of the two bids received, one was \$18.86 a share and the other \$19.91, and that the successful bidder offered the shares to the public for \$21.50, resulting in an underwriting spread of \$1.59 or 7.4% of the offering price.

On the other hand, applicant states that the results from its negotiated underwritings have been satisfactory. In this connection the record shows that in 1951 applicant sold 250,000 shares of common stock under negotiated arrangements whereby the stock was offered at a price somewhat in excess of the market with

an underwriting spread of 4.7%. Considering the former transactions, applicant has concluded it will receive a higher price if it negotiates a sale of its shares of stock at this time.

In addition, applicant's officers feel that a negotiated underwriting is preferable because it offers the possibility of a better distribution of its stock. The testimony given at the hearing on this application shows that 87.6% of applicant's common stockholders, who own 86.8% of the outstanding shares, are located in the three Pacific Coast states. Applicant is of the opinion that a broader placement is desirable, particularly in eastern markets, in view of its expanding needs for capital, and that this more likely can be accomplished by its exercising, through negotiation, some control over the selection of underwriters and dealers and some voice in matters relating to distribution and timing of the offer.

From a review of the testimony we are of the opinion that we are warranted in exempting the proposed issue of shares of common stock from competitive bidding. Accordingly, a preliminary order will be entered at this time authorizing the execution of a supplemental indenture defining the terms of the new series of bonds now to be issued and authorizing the issue and sale of such bonds and of the shares of common stock. We will give further consideration to these matters upon the filing by applicant of a supplemental application, or applications, setting forth the prices, terms and conditions of the proposed issues.

O R D E R

A public hearing having been held in this application, and the Commission having considered the matter and being of the opinion that the application should be granted, as herein provided; that the

money, property or labor to be procured or paid for by the issue and sale of the bonds and shares of common stock herein authorized is reasonably required by applicant for the purposes specified herein; and that the expenditures for such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. The California Oregon Power Company, after the effective date hereof and on or before December 31, 1952, may execute a Fourth Supplemental Indenture in, or substantially in, the same form as that filed in this proceeding as Exhibit 1.

2. The California Oregon Power Company, after the effective date hereof and on or before December 31, 1952, may publish invitations for bids for the purchase of \$7,000,000 of First Mortgage Bonds, Series due October 1, 1982, not less than five (5) days prior to the date set for the opening of said bids, and may issue and sell such bonds at a price to be fixed by the Commission in a supplemental order. Pending the preparation and delivery of definitive bonds, applicant may issue and sell temporary bonds under the same terms and conditions as those under which it is authorized to issue and sell said definitive bonds.

3. The issue and sale of 250,000 shares of common stock hereby is exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, provided that applicant make arrangements for the sale of said shares at a price satisfactory to the Commission.

4. The California Oregon Power Company, after the effective date hereof and on or before December 31, 1952, may issue and sell said 250,000 shares of common stock at a price to be fixed by the Commission in a supplemental order.

5. The California Oregon Power Company shall use the proceeds from the sale of said bonds, other than accrued interest, to pay outstanding notes heretofore issued under authorization granted by the Commission and shall use the proceeds from the sale of its shares of common stock to pay notes, and, if any proceeds are available, to reimburse its treasury for income expended for additions to plant and to finance in part 1952 construction expenditures. The accrued interest from the sale of the bonds may be used for general corporate purposes.

6. The authority herein granted to issue and sell bonds and shares of common stock will become effective when the Commission by a supplemental order, or orders, has fixed the prices at which applicant may sell the same. In other respects, the authority herein granted is effective upon the date hereof.

7. Within sixty (60) days after the issue and sale of the bonds and shares of stock herein authorized, applicant shall file with the Commission three (3) copies of its prospectus and a report showing the amount of bonds and shares of stock issued and sold, the prices at which sold, the names of those to whom sold and the purposes for which the proceeds were used, and two (2) copies of its Fourth Supplemental Indenture as executed. Within six (6) months after such issue and sale, applicant shall file a

statement showing in some detail the expenses incurred by it incident to the issue and sale of said bonds and shares of stock and the accounts to which such expenses were charged.

Dated at San Francisco, California, this 16th day of September, 1952.

A. T. [Signature]

President

Justice J. [Signature]

Harold [Signature]

Peter E. [Signature]

Commissioners