A. 37772 CB

ORIGINAL

Decision No. 52808

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 authorizing the issuance and sale of 70,000 shares of preferred stock and $16,000,000 principal amount of bonds, and the execution of a Sixth Supplemental Indenture; and exempting from the Commission's competitive bidding rule the issuance and sale of said preferred stock.	Application No. 37772

Brobeck, Phleger & Harrison, by George D. Rives, for applicant.

O P I N I O N

The California Oregon Power Company filed this application on February 21, 1956, for an order authorizing it to issue and sell $16,000,000 in principal amount of first mortgage bonds and 70,000 shares ($7,000,000 par value) of its preferred stock and authorizing it to execute a supplemental indenture.

A public hearing was held before Examiner Coleman in San Francisco on March 9, 1956, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Use of Proceeds

The purpose of the proposed financing is to provide applicant with funds to pay $23,000,000 in principal amount of promissory notes representing bank borrowings used to finance temporarily the cost of constructing generating, transmission, and distribution facilities. The $23,000,000 of notes were issued under the terms of a credit agreement with a group of banks and were authorized by the Commission by Decision No. 49669, dated February 16, 1954.

Any proceeds not needed to pay indebtedness will be used by applicant to reimburse its treasury for expenditures made for additions and betterments.

Construction Program

For a number of years applicant has been engaged in an extensive construction program designed to meet present and future load requirements and to expand and improve its system to meet the growing needs for electricity in its service area. It reports that its gross capital expenditures amounted to $11,514,820 in 1955 and it estimates its expenditures during 1956 at $12,000,000. According to Exhibit No. 3 the Lemolo No. 1 hydroelectric plant on the North Umpqua River, with a rated capacity of 29,000 kilowatts, was placed in service on July 7, 1955, and the Lemolo No. 2 plant, with a rated capacity of 33,000 kilowatts, will be completed in 1956. In addition, it is anticipated that approximately 138 miles of new transmission lines and 175 miles of new distribution lines will be placed in service and that work will be undertaken on other hydroelectric plants and on the Klamath River development.

Applicant expects its present construction program will continue beyond 1958.

Financing of Costs

It has been applicant's practice to finance its construction costs for the most part by entering into credit agreements with a group of banks permitting it to draw down funds from time to time, as needed, to be evidenced by notes, and thereafter to refinance itself with long-term debt and equity capital.

Presently, applicant has exhausted the line of credit established by its existing agreement. It has undertaken to negotiate a new agreement at an early date so as to assure itself of an uninterrupted supply of funds and in order to do so it first must liquidate the outstanding notes, which, as stated, are in the aggregate amount of $23,000,000, before any borrowings can be made under the new arrangements.

The testimony shows that after a consideration of capitalization ratios, common stock earnings, and the prevailing preferred stock market, applicant has concluded conditions are favorable at this time for the issue and sale of the $16,000,000 of bonds and the $7,000,000 par value of preferred stock to liquidate the present note indebtedness.

Capitalization Ratios

Applicant's capitalization ratios as of December 31, 1955, and pro forma, giving effect to the proposed issue and sale of securities, are as follows:

	December 31, 1955	Pro Forma
Long-term debt:		
Bonds	40.9%	53.9%
Notes	18.6	-
Total	59.5	53.9
Preferred stock	5.6	11.5
Common stock equity		
Common stock at par	27.9	27.6
Earned surplus	3.5	3.5
Premium on common stock	3.5	3.5
Total	34.9	34.6
Total	100.0%	100.0%

Sale of Securities

Applicant reports that it intends to offer its bonds for sale at competitive bidding, the interest rate on the bonds as well as the price to be fixed as a result of such bidding. With respect to the issue and sale of shares of preferred stock, however, applicant requests the Commission to exempt the same from competitive bidding and to authorize it to dispose of its shares by means of a negotiated underwriting at a price hereafter to be fixed by the Commission. At a later date applicant will file a supplemental application setting forth the terms of said preferred shares and the arrangements it has made to dispose of them.

Exemption from Competitive Bidding

Testimony in support of the request for exemption from competitive bidding was given by applicant's vice president and treasurer.

The testimony shows that on three occasions applicant's stock, both preferred and common, was offered for sale at competitive bidding, that in connection with two of the offerings no bids, or no acceptable bids, were received, and that for the third offering the price received was the lowest at which the company has ever disposed of its common stock. Thereafter, all subsequent sales of preferred and common stock were disposed of under negotiated arrangements upon what were considered favorable terms.

It appears to be the position of the witness that a successful sale of the company's stock can be accomplished only with proper market preparation, and that, on the basis of his experience, such preparation can be assured only under negotiated arrangements, particularly with a large issue such as here is proposed. It is pointed out in this connection that the size of the proposed preferred stock offering is larger than all of applicant's preferred shares now outstanding.

Moreover, the witness stated that by negotiation the company can exercise some voice in the distribution of the offering. Substantial amounts of the presently outstanding shares are held in applicant's service area and it is desired by applicant to continue such ownership. It is applicant's opinion that the best results as to distribution, as well as price, can be obtained by a sale to a select group of underwriters and dealers who are acquainted with its operations, who have handled its past financing, and who will provide the prior preparation.

Financial Position

A summary statement of applicant's earnings position for the last two years, as set forth in Exhibit 3, is as follows:

	1954	1955
Operating revenues	$17,046,937	$18,948,286
Gross income, before fixed charges	5,119,857	5,621,037
Net income	3,416,362	3,817,026
Times fixed charges earned	3.16	3.18
Times fixed charges and preferred stock dividends earned	2.51	2.64
Earnings per share of common	1.86	2.11

The common stock has a par value of $20 a share and a book value, at the close of 1955, of $25.05. For a number of years annual dividends of $1.60 have been paid on the common shares.

The company's balance sheet of December 31, 1955, shows current assets at $6,848,594 and current liabilities at $4,079,259. It shows the relationship between the net investment in property and the long-term debt and equity capital as follows:

Net investment -		
Utility plant	$117,498,191	
Other property	312,141	$117,810,332
Long-term debt and equity capital -		
First mortgage bonds	48,000,000	
Bank loans	21,850,000(1)	
Preferred stock	6,621,800	
Common stock equity	41,055,710	117,527,510

(1) Since increased to $23,000,000

Conclusions

The record indicates that applicant has obtained satisfactory results from the issue and sale of its stock under negotiated arrangements and that an order is warranted at this time exempting the proposed issue of shares of preferred stock from competitive bidding. It is our opinion that applicant will have need for the proceeds from the sale of its securities for the purposes indicated in this proceeding, that the money, property or labor to be procured or paid for by the issue of the securities and the execution of the indenture herein authorized is reasonably required by applicant for such purposes, and that the expenditures therefor, except for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The approval herein indicated is for the issue and sale of securities only and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

O R D E R

A public hearing having been held in the above-entitled matter, and the Commission having considered the evidence and being fully advised in the premises, IT IS HEREBY ORDERED as follows:

1. The California Oregon Power Company may execute a Sixth Supplemental Indenture in substantially the form of Exhibit B attached to the application.

2. The California Oregon Power Company may publish invitations for bids for the purchase of $16,000,000 of First Mortgage Bonds, Series due May 1, 1986, not less than five days prior to the date set for the opening of said bids, and may issue and sell such bonds at the price offered in said bids which will result in the lowest annual cost of money to applicant.

3. The issue and sale of 70,000 shares of preferred stock hereby is exempted from the Commission's competitive bidding rule and The California Oregon Power Company hereby is authorized to issue and sell said 70,000 shares of preferred stock at a price to be fixed by the Commission in a supplemental order.

4. The California Oregon Power Company shall use the proceeds to be received from the sale of said bonds, exclusive of accrued interest, for the purpose of paying outstanding notes, and shall use the proceeds from the sale of said shares of preferred stock for the purpose of paying outstanding notes and of reimbursing its treasury for capital expenditures made prior to April 30, 1956. The accrued interest from the sale of the bonds may be used for general corporate purposes.

5. The authority herein granted to issue and sell shares of preferred stock will not become effective until the Commission by a supplemental order has fixed the price at which applicant may sell the same. In other respects the authority herein granted is effective upon the date hereof.

6. Within 60 days after the issue and sale of the bonds and shares of stock herein authorized, applicant shall file with the Commission three copies of its prospectus and a report, or reports, 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 copies of its Sixth Supplemental Indenture as executed. Within six 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 27th day of March, 1956.

Peter E. Mitchell
President

Justus F. Craemer

Ray E. Untereiner

Matthew J. Dooley

Rex Hardy

Commissioners