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Decision No. 13911.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
COAST VALLEYS GAS AND ELECTRIC COMPANY,)
a corporation, to issue its Series "B")
seven percent. cumulative preferred)
stock of the par value of \$1,000,000.)

Application Number 10344

ORIGINAL

Cummins, Roemer and Flynn and
Chickering and Gregory, by Allen L. Chickering,
for applicant.

MARTIN, Commissioner:

OPINION

In this application the Railroad Commission is asked to make an order authorizing Coast Valleys Gas and Electric Company to issue \$1,000,000.00 of its Series "B" seven percent. cumulative preferred stock.

The Commission is further asked to make an order authorizing the company to deliver \$500,000.00 of such stock in exchange for a like amount of six percent. preferred stock at present outstanding, upon the payment to applicant of \$14.00 with each share of six percent. preferred stock exchanged, and to sell the remaining \$500,000.00 of such stock at not less than 98 percent. of par value, for the purpose of financing the cost of extensions, additions and betterments and of refunding sinking fund payments.

The application shows that Coast Valleys Gas and Electric Company is engaged in selling gas in Monterey, Pacific Grove and Salinas; electric energy in Monterey, Pacific Grove, Salinas, King City, Carmel,

San Ardo, Castroville and in a large part of Monterey County and in a portion of San Benito County; and water in Salinas and King City. It appears that the company was organized on or about March 18, 1912, with an authorized capital stock of \$5,000,000.00 divided into \$3,000,000.00 of common and \$2,000,000.00 of seven percent. cumulative preferred stock, all of which was issued. Thereafter the company amended its Articles of Incorporation so as to provide for an authorized issue of \$3,500,000. divided into \$3,000,000.00 of common, and \$500,000.00 of six percent. cumulative preferred stock. By Decision Number 9789, dated November 23, 1921 (Volume 20, Opinions and Orders of the Railroad Commission of California, page 873) the company was authorized to issue the \$500,000.00 of preferred stock for the purpose of refunding the \$2,000,000.00 of preferred stock then outstanding and of financing the cost of additions and betterments.

At present the company reports that the \$3,000,000.00 of common stock and \$498,200.00 of the preferred stock are issued and outstanding, and that \$1,800.00 of preferred stock has been subscribed for but not yet issued. It appears that applicant has found it necessary to sell its six percent. preferred stock at a substantial discount and is of the opinion it is for its best interests to create an issue of seven percent. preferred stock, which it believes it can sell at a price more nearly par, and to provide for the retirement of the six percent. stock now outstanding. To this end applicant's stockholders have voted to amend the Articles of Incorporation so as to increase its authorized capital stock to \$6,000,000.00 and to create, out of the increase of \$2,500,000.00, a new class of preferred stock to be designated Series "B", and to be entitled to cumulative dividends at the rate of seven percent. per annum, but in all other respects to have the same preferences as the preferred stock now outstanding, which is now designated Series "A" preferred stock.

The holders of the Series "A" preferred stock have the privilege of converting such stock into Series "B" stock by surrendering the certificates representing shares of Series "A" stock and paying applicant \$14.00 for each share and receiving in exchange one share of Series "B" stock for each share of Series "A" stock surrendered. Any Series "A" stock surrendered will not thereafter be reissued by the company. To permit the conversion of stock, applicant now asks that it be authorized to issue \$500,000.00 of its Series "B" preferred stock.

The company proposes to sell the remaining \$500,000.00 of preferred stock herein applied for at not less than 98 percent. of face value. It proposes to use an amount of the proceeds of not more than eight percent. of the par value of stock sold to pay commissions and selling expenses and to use the remaining proceeds to reimburse its treasury on account of moneys invested in extensions, additions and betterments and moneys used in making sinking fund payments, and to finance the cost of construction work. Applicant should be able to sell seven percent. preferred stock at a total expense of not to exceed six dollars per share sold.

It is reported that prior to June 30, 1919, the company had expended for extensions, additions and betterments, the sum of \$73,744.04 for which it had not been reimbursed with proceeds from the sale of stock or bonds and that during the period from June 30, 1919 to June 30, 1924, it made further expenditures for extensions, additions and betterments of \$1,287,224.14; making a total of \$1,360,968.18. From this amount applicant deducts \$963,708.08 received from the sale of stock and bonds, leaving a balance of \$397,260.10, which is said to represent uncapitalized construction expenditures on June 30, 1924. An examination of financial statements filed in this and in previous applications indicates that during the period from June 30, 1919 to June 30, 1924, the company's reserve for accrued depreciation increased \$153,971.01. Deducting \$153,971.01 from the \$397,260.10 there is left a balance of \$243,289.09. I believe the company may at this time be permitted to reimburse its

treasury on account of the investment of the \$243,289.09 in fixed capital.

As Exhibit "E", applicant has filed a tentative construction program for the last six months of this year, showing estimated construction expenditures of \$145,735.00 which applicant proposes to finance with proceeds it will obtain from the sale of its stock. These estimated construction expenditures consist of the following:-

Electric Properties:

Steam	\$1,313.00	
Transmission lines	18,321.00	
Substations	2,635.00	
Distribution	87,994.00	
Street lighting	2,031.00	
Total Electric		\$ 112,294.00

Gas Properties:

Gas plants	\$ 9,115.00	
Gas distribution	5,928.00	
Total Gas		15,043.00

Water Properties:

Pumping plants	\$ 8,279.00	
Distribution system	4,154.00	
Total Water		12,433.00

<u>General</u>		5,965.00
Total		<u>\$ 145,735.00</u>

Adding the \$145,735.00 to the \$243,289.09 results in a total of \$389,024.09. In addition to these expenditures the testimony shows that during 1925 it is thought the company will be called upon to expend between \$500,000.00 and \$600,000.00 for extensions, additions and betterments.

I will now consider that portion of the application in which the company asks permission to reimburse its treasury because of earnings used to make sinking fund payments. In this connection it appears that applicant heretofore executed its mortgage or deed of trust to

Mercantile Trust Company of San Francisco to secure an authorized issue of \$10,000,000.00 of first mortgage six percent. bonds dated March 1, 1912 and due March 1, 1952, of which bonds \$2,000,000.00 have been issued. It is reported that since these bonds were issued \$104,000.00 were retired through the operation of the sinking fund, leaving \$1,896,000.00 outstanding. It appears that the moneys in the sinking fund used to retire bonds were obtained from earnings, and accordingly the request is now made to reimburse the treasury because of such payments.

In effect, applicant is now asking permission to substitute \$104,000.00 of stock for \$104,000.00 of bonds. I see no objection at this time to this procedure, it being understood, however, that the granting of this request in no way commits the Commission to a policy of granting, in the future, permission of a similar nature either to applicant or to any other utility.

I herewith submit the following form of order:-

O R D E R

Coast Valleys Gas and Electric Company having applied to the Railroad Commission for permission to issue \$1,000,000.00 of its Series "B" seven percent. cumulative preferred stock, a public hearing having been held, and the Railroad Commission being of the opinion that the application should be granted as provided herein, and that the money, property or labor to be procured or paid for through the issue of stock is reasonably required by applicant for the purposes specified herein and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Coast Valleys Gas and Electric Company be, and it is hereby, authorized to issue \$500,000.00 of its Series "B" seven percent. cumulative preferred stock in exchange for a like amount of Series "A" six percent preferred stock now outstanding, upon

the payment to applicant of \$14.00 with each share of Series "A" six percent. preferred stock exchanged for Series "B" seven percent. preferred stock.

IT IS HEREBY FURTHER ORDERED that Coast Valleys Gas and Electric Company be, and it is hereby, authorized to issue and sell on or before June 30, 1925 at not less than 98 percent. of par value, \$500,000. of its Series "B" seven percent. cumulative preferred stock.

The authority herein granted is subject to further conditions as follows:-

1. Of the proceeds obtained from the sale of the \$500,000. of stock herein authorized to be issued, and sold, applicant may use not exceeding \$6.00 per share of stock sold to pay commissions and other expenses incident to the sale. The remaining proceeds and such portion of the \$6.00 not needed to pay commissions and other expenses incident to the sale, may be used by applicant to reimburse its treasury on account of moneys used in making sinking fund payments and in paying for extensions, additions and betterments prior to June 30, 1924, as indicated in the foregoing opinion, and to finance the cost of extensions, additions and betterments to be made subsequent to June 30, 1924.
2. Only such expenditures as are properly chargeable to capital accounts, as defined by the classifications of accounts prescribed by this Commission, may be financed with the proceeds to be obtained from the sale of the stock herein authorized.
3. Applicant shall keep such record of the issue, sale and delivery of the stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report as required by the Railroad Commission's General Order

No. 24, which order in so far as applicable, is made a part of this order.

4. The authority herein granted will become effective upon the date hereof.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

DATED at San Francisco, California, this 12th day of August, 1924.

Chas. S. Sweeney
H. W. Brouder
Dwight Martin

Commissioners.