

LM

Decision No. 14175.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SAN GORGONIO POWER COMPANY,)
a corporation, for an order author-) Application Number 10509
izing the issue of stock and bonds.)

Bogue and Pierson, by: Warren Lee Pierson,
for Applicant.

BY THE COMMISSION:

ORIGINAL

OPINION

In this application the Railroad Commission is asked to make an order authorizing the San Gorgonio Power Company to issue \$5,000.00 of seven percent. bonds and \$100,000.00 of seven percent. preferred stock. The company intends to sell its bonds at not less than 93 and accrued interest and its stock at par less a selling expense of 12 percent. Reference will hereafter be made to the purposes for which applicant intends to expend the proceeds obtained from the issue of its stock and bonds.

By Decision Number 11432, dated December 22, 1922, as amended, in Application Number 8310, the Commission authorized San Gorgonio Power Company to issue \$100,500.00 of common stock and \$400,000. of bonds and to execute a mortgage to secure the payment of an authorized bond issue of \$450,000.00. The stock was authorized to be issued in payment for properties acquired from Consolidated Reservoir and Power Company, while the company was authorized to use the proceeds

from the sale of its bonds for the following purposes:-

Plant No. 1, about	\$168,992.70
Plant No. 2, about	120,273.70
Transmission line, about	19,565.65
Water conservation work, about	22,500.00
Contingencies and engineering on water con- servation work, about	2,250.00
Interest during construction	20,000.00
To pay indebtedness other than the 50,000 debt referred to in the preceding opinion, about	12,417.95
	\$372,000.00

The two hydroelectric plants of the company have been constructed and were placed in operation during January of this year. The actual cost of the plants is reported by the company in its Exhibit "D" filed in this proceeding at \$441,379.07. This cost includes \$31,615.80 of bond discount and expense. This amount is not in its entirety a charge to fixed capital account. Only the proportion of bond discount and expense amortized during 1923 is a charge to fixed capital account. On a straight line amortization basis the amount that may be charged to fixed capital is \$1,264.63. The difference between \$31,615.80 and \$1,264.63 is \$30,351.17. Deducting the \$30,351.17 from the \$441,379.07 leaves a cost of \$411,027.90. The increase in the cost as now reported of the two hydroelectric plants and appurtenances, as compared with the estimate submitted in Application Number 8310 (Decision Number 11432) is \$39,027.90. This increase is alleged to have been caused by changes in the construction plans, unavoidable delays in the construction of the plants and to unexpected difficulties encountered in construction.

Applicant further states that it has need for additional funds for the following purposes:-

To pay amounts representing materials purchased	\$3,000.00
To cover lower canal	5,000.00
To construct steel by-pass from tank #2	3,000.00
To complete storm control dams	12,000.00
To construct fire breaks and trails	6,000.00
To pay interest	14,000.00
Miscellaneous	3,680.56
	\$56,680.56
Adding excess cost of plants	39,027.90
Results in a total of	\$95,708.46

which the company now asks permission to finance with the issue of \$5,000.00 of bonds and \$100,000.00 of seven percent. preferred stock.

Applicant in its Exhibit "C" submits a statement showing the number of kilowatt hours of electrical energy sold to The Southern Sierras Power Company during the first eight months of this year. The total receipts from the sale of electrical energy during such period are reported at \$16,136.90. Under the contract between applicant and The Southern Sierras Power Company applicant must pay The Southern Sierras Power Company \$835.00 per month to reimburse such company for moneys expended in the operation of applicant's hydroelectric plants. Deducting this monthly charge, which amounts to \$6,680.00, leaves a balance available for interest of \$9,456.90.

Applicant has \$400,000.00 of seven percent. bonds outstanding and a \$30,000.00 six percent. note. The bonds are secured by a mortgage or deed of trust which is a lien on all of the company's properties. The bonds mature serially as follows:-

<u>Bond numbers, both inclusive</u>		<u>When due</u>
M-1	to M-5	October 1, 1924
M-6	to M-12	October 1, 1925
M-13	to M-19	October 1, 1926
M-20	to M-27	October 1, 1927
M-28	to M-35	October 1, 1928
M-36	to M-44	October 1, 1929
M-45	to M-53	October 1, 1930
M-54	to M-62	October 1, 1931
M-63	to M-72	October 1, 1932
M-73	to M-82	October 1, 1933
M-83	to M-93	October 1, 1934
M-94	to M-104	October 1, 1935
M-105	to M-115 and D-1 to D-2	October 1, 1936
M-116	to M-126 and D-3 to D-6	October 1, 1937
M-127	to M-138 and D-7 to D-10	October 1, 1938
M-139	to M-151 and D-11 to D-14	October 1, 1939
M-152	to M-164 and D-15 to D-20	October 1, 1940
M-165	to M-178 and D-21 to D-26	October 1, 1941
M-179	to M-193 and D-27 to D-32	October 1, 1942
M-194	to M-209 and D-33 to D-40	October 1, 1943
M-210	to M-225 and D-41 to D-50	October 1, 1944
M-226	to M-243 and D-51 to D-64	October 1, 1945
M-244	to M-260 and D-65 to D-80	October 1, 1946
M-261	to M-400 and D-81 to D-100	October 1, 1947.

The company in its mortgage has covenanted and agreed that it will deposit with the trustee on or before January 1, 1924 and on or before the 15th day of January of each year thereafter the sum of \$2,000. such sum to be paid out of its net earnings. If the company's net earnings during any one year do not amount to such sum, all of the company's net earnings must be deposited. Such deposits must be made until the sum of \$40,000.00 is on deposit with the trustee. The trustee shall invest all of such moneys in United States bonds or United States treasury certificates and the interest received on such bonds shall be added to the fund. The annual payments to be made by the company will be reduced by the amount of interest collected by the trustee on securities purchased by it for the fund. The company is permitted to draw upon such fund to reimburse itself on account of expenses for renewals and replacements to its plants or transmission line. If any withdrawals are made the company agrees to again make annual payments in order to bring the amount up to a total of \$40,000.00. The company in its mortgage has further agreed that it will invest at least \$40,000.00 in the construction of its hydroelectric plants which shall not be obtained from the sale of bonds. Of this amount, at least \$18,000.00 shall be expended in the construction of a road to its plants. The company has further agreed that it will not declare or pay any dividends, or bonus, or make any distribution of profits or surplus to its stockholders until after it shall have deposited with the trustee sufficient money to pay all interest which may become due during the period of twelve months next succeeding the payment of such dividend and such part of the principal of the bonds issued and outstanding as may become due during such period, and after it shall have made provision for depositing with the trustee any sum payable during the period of twelve months next succeeding the payment of such dividend under the sinking and replacement fund provision to which reference has been made. It will be noted that \$5,000.00 of the company's bonds mature on October 1, 1924 and that \$7,000.00 are due October 1, 1925. The annual

interest charge of the company on its outstanding bonds amounts to \$27,650.00. Adding the annual operating expense of \$10,020.00 which must be paid by applicant, its 1925 interest charge at least \$29,450.00, its sinking or replacement fund \$2,000.00, and bond redemption \$7,000.00, makes a total of \$48,470.00 that must be paid before any dividends can be paid. During the first eight months of the current year the company had receipts, as stated above, of \$16,136.90. It has submitted an exhibit showing the amount of electrical energy that would have been available had these plants been constructed during the years 1913 to 1923 inclusive. The average annual income for this period is reported at \$85,000.00. During the period the company's earnings, according to the exhibit, would have varied from \$26,321.00 in 1919 to \$99,929.00 in 1913. The actual earnings for 1924 may be less than the earnings for any one of the years from 1913 to 1923, both inclusive. The problematical earnings from 1913 to 1923 do not represent money earned to offset the deficit for 1924, which is actual.

Applicant asks permission to issue and sell \$100,000.00 of seven percent. preferred stock. The dividend on this stock is to be cumulative. The stock is redeemable at the option of the company at 110 and accrued dividends. In order to sell the stock the company asks permission to expend 12 percent. of the proceeds realized from the sale of the stock to pay stock selling commissions and expenses. The Commission is asked to authorize the issue of preferred stock on a record which shows that the company is not earning its bond interest, and further shows that it is doubtful whether any dividends because of mortgage provisions and this year's operating deficit can be paid for several years to come. While it is true that the dividends on the preferred stock are not a fixed charge, yet it is a fact that many purchasers of preferred stock believe or are led to believe that dividends on such stock are guaranteed and will be paid without fail. Regular dividend payments of the San Geronimo Power Company are by no means assured, and under the circumstances we feel that the company should not be permitted to issue any preferred stock. We believe that any moneys necessary

to maintain these properties must temporarily, at least, be obtained through the credit of the company or its stockholders or advanced by such stockholders.

The order will authorize the issue of \$5,000.00 of bonds. These bonds are secured by a lien on the property and in effect are a substitution for bonds redeemed.

O R D E R

San Geronio Power Company having applied to the Railroad Commission for permission to issue \$5,000.00 of bonds and \$100,000.00 of preferred stock, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the application in so far as it involves the issue of preferred stock, should be continued and that the money, property or labor to be procured or paid for through the issue of the \$5,000.00 of bonds is reasonably required by applicant and that the issue of such bonds should be authorized.

IT IS HEREBY ORDERED that the San Geronio Power Company be, and it is hereby, authorized to issue and sell on or before December 31, 1924 \$5,000.00 of its seven percent. bonds and use the proceeds to pay in part the cost of the improvements referred to in this application. The authority herein granted to issue such bonds is subject to further conditions as follows:-

1. San Geronio Power Company shall keep such record of the issue, sale and delivery of the stock and bonds 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.

2. The authority herein granted to issue the bonds will become effective when applicant has paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which fee is \$25.00.

IT IS HEREBY FURTHER ORDERED that this application in so far as it involves the issue of \$100,000.00 of preferred stock is denied without prejudice.

DATED at San Francisco, California, this 16th day of October, 1924.

C. C. Kenney

H. K. Brundige

Dwight Martin

J. T. Whitney

Commissioners.

