

LEM

Decision No. 17488

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 THE SOUTHERN SIERRAS POWER COMPANY,
 a corporation, for an order or orders
 of the Railroad Commission of the
 State of California, authorizing and
 approving the redemption and payment
 of the First Mortgage Bonds of said
 Company, and the use of the First and
 Refunding Mortgage Bonds now held and
 reserved by the trustees under the
 provisions of Section Six of the First
 and Refunding Mortgage of said Company
 for the purpose of refunding said
 First Mortgage Bonds.

Application No. 13210

In the Matter of the Application of
 THE SOUTHERN SIERRAS POWER COMPANY,
 a corporation, for an order of the
 Railroad Commission of the State of
 California authorizing the redemption
 and payment of \$300,000. aggregate
 principal amount of the First Mortgage
 6% Gold Bonds of the Coachella Valley
 Ice & Electric Company, the payment of
 which was assumed by The Southern
 Sierras Power Company, and for an Order
 authorizing First and Refunding Mort-
 gage Bonds of The Southern Sierras
 Power Company to be certified and issued
 in lieu of and in exchange for said
 Coachella Valley Ice & Electric Company
 bonds.

Application No. 13224

Charles F. Potter, for applicant.

BY THE COMMISSION:

O P I N I O N

In the two above entitled matters the Railroad Commission
 is asked to authorize The Southern Sierras Power Company to issue
 its first and refunding mortgage six percent bonds due January 1,
 1965, to refund its outstanding \$2,470,000. of first mortgage six
 percent bonds due September 1, 1936, and the outstanding \$300,000.

of six percent serial bonds issued by Coachella Valley Ice and Electric Company, whose properties heretofore have been acquired by applicant.

A public hearing in these proceedings was held before Examiner Fankhauser on October 8, 1926, at which time they were consolidated for the purpose of receiving evidence and decisions.

The Southern Sierras Power Company, as of September 1, 1911, executed a first mortgage to secure the payment of a total authorized issue of \$5,000,000. of six percent bonds due September 1, 1936. Prior to the effective date of the Public Utilities Act \$2,500,000. of such first mortgage bonds were issued. Thereafter in 1915, pursuant to authority granted by Decision No. 2244, an additional \$150,000. were issued, making a total issue of \$2,650,000. From 1917 to 1926, \$180,000. of such bonds were redeemed through the operation of the sinking fund, leaving \$2,470,000. now outstanding. These bonds are callable at a premium of five percent of the face value.

As of January 1, 1915, applicant executed a new mortgage of the open-end type, designated as its first and refunding mortgage to secure the payment of first and refunding mortgage six percent bonds due January 1, 1965. As of December 31, 1925, the following first and refunding mortgage bonds were reported outstanding:-

Series "A", dated January 1, 1915	\$2,306,000.
Series "B", dated December 1, 1920	4,963,000.
Series "C", dated October 1, 1924	<u>1,094,000.</u>
Total.....	<u>\$8,363,000.</u>

In addition to the first mortgage bonds and first and refunding mortgage bonds, there are \$300,000. of divisional bonds outstanding which were issued by Coachella Valley Ice and Electric Company under authority granted by the Commission by Decision No. 1135, dated December 13, 1913. The lines of the Coachella Valley

Ice and Electric Company extended from Banning, Riverside County, to El Centro, Imperial County, and to Yuma, Arizona, connections being made at Banning with the lines of The Southern Sierras Power Company, from which company power was purchased. On April 2, 1918, by Decision No. 5267, the Commission authorized the sale of the electric properties to applicant and authorized applicant, as part consideration, to execute a trust indenture wherein it agreed to assume the payment of the outstanding \$300,000. of bonds. These bonds are dated January 1, 1912, bear interest at six percent per annum, mature in annual installments of \$15,000. on the first day of January of each of the years 1937 to 1956, inclusive, and are callable at a premium of five percent.

The total bonded indebtedness as of August 31, 1926, is reported as \$11,254,000. The total assets and liabilities as of the same date are reported as follows:-

ASSETS:

Plant and equipment	\$14,656,493.50
Investments	307.40
Current assets(excluding inter- company accounts)	1,300,796.05
Bond redemption fund	391.42
Intercompany accounts	47,949.48
Special deposits	74,625.00
Prepayments	93,832.38
Unamortized discount and expense	1,094,150.49
Miscellaneous deferred debits	25,049.58
Unamortized stock discount . .	<u>4,995,350.00</u>
Total assets.....	<u>\$22,288,955.30</u>

LIABILITIES:

Capital stock	\$5,000,000.00
Funded debt	11,254,000.00
Advances from affiliated companies	500,000.00
Current liabilities(excluding intercompany accounts)	452,075.50
Intercompany accounts	2,441,418.14
Deferred credits	136,687.83
Liabilities offsetting special deposits	74,625.00
Depreciation reserve	1,475,171.95
Other reserves	144,420.80
Appropriated surplus	592,513.50
Unappropriated surplus	<u>218,042.58</u>
Total liabilities	<u>\$22,288,955.30</u>

The present application does not involve an increase in the outstanding bonded indebtedness, it being the plan of applicant to issue first and refunding mortgage bonds of the same aggregate par value as the first mortgage bonds and of eighty-five percent of the par value of the divisional bonds to be retired. Under the first and refunding mortgage \$2,650,000. of such bonds were reserved to retire \$2,650,000. of first mortgage bonds, provided that such refunding be done on a basis of par for par. By Decision No. 2592, dated July 13, 1915, as amended, the company was authorized to issue its first and refunding bonds to refund the then outstanding \$2,650,000. of first mortgage bonds. The authority so granted, however, expired on June 30, 1917, and no refunding bonds were issued under it.

Subsequent to June 30, 1917, applicant reports that it did issue \$154,000. of first and refunding mortgage bonds to refund in part the \$180,000. of first mortgage bonds retired since 1917. We question the validity of the \$154,000. of bonds issued without an order from this Commission then in effect and in our opinion it will be necessary for applicant to cancel the bonds thus illegally issued and to issue new ones in lieu thereof. The order herein will so provide. It will also provide for the issue of \$26,000. of first and refunding bonds to finance the retirement of the \$26,000. of first mortgage bonds heretofore redeemed, during the period 1917 to 1926, against which no first and refunding bonds have been issued.

Of the \$2,470,000. of first mortgage bonds now remaining outstanding, \$686,000. thereof are said to be held by The Nevada California Electric Corporation, which also owns all of applicant's outstanding stock. These bonds will be surrendered to applicant at par. The remaining \$1,784,000. will be called for redemption on January 1, 1927. At the premium of five percent of the face value of the bonds it will be necessary to pay \$1,873,200. to redeem

the \$1,784,000. of bonds. It appears that The Nevada California Electric Corporation has agreed to take the first and refunding bonds at par and in addition to advance applicant the \$89,200. needed to pay the premium on the called bonds.

No first and refunding bonds are reserved, under the trust indenture, to retire the bonds issued by Coachella Valley Ice and Electric Company. It is the opinion of counsel that applicant, under its first and refunding mortgage, is entitled to issue bonds equal in face amount only up to eighty-five percent of the face value of the bonds of Coachella Valley Ice and Electric Company, or in the aggregate face amount of \$255,000. It appears, however, that these bonds also are held by The Nevada California Electric Corporation and that that company has agreed to surrender them at eighty-five percent of their face value so that no additional indebtedness will be created through the refunding of these underlying bonds.

It appears that there is a debit balance of approximately \$150,000. on applicant's books of account representing unamortized discount and expenses on the first mortgage bonds. Instead of charging this entire amount, together with the premium of \$89,200. to be paid, to profit and loss at one time upon redemption of the first mortgage bonds, applicant asks that it be permitted to amortize these balances on or before September 1, 1936, the date on which the first mortgage bonds would mature, if not called.

We believe that under the circumstances of this case the company should not be required to write off forthwith the unamortized discount and premium, on its first mortgage bonds. We feel that the discount and premium should be amortized on or before January 1, 1965, the maturity date of the first and refunding bonds. Of course we have no objection if the premium and discount are amortized at an earlier date.

ORDER

The Southern Sierras Power Company having applied to the Railroad Commission for permission to issue bonds, a public hearing having been held, and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for through such issue is reasonably required for the purposes specified herein and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED as follows:-

1. The Southern Sierras Power Company is authorized to issue and sell at not less than par not exceeding \$2,470,000. of its first and refunding mortgage bonds and to use the proceeds to refund \$2,470,000. of first mortgage bonds now outstanding, or to exchange such bonds, or a portion thereof, for outstanding first mortgage bonds on a basis ^{of}/par for par.

2. The Southern Sierras Power Company is authorized to issue not exceeding \$154,000. of first and refunding mortgage bonds in lieu of a like amount of first and refunding mortgage bonds heretofore issued without an order from the Commission in refunding first mortgage bonds during the years 1917 to 1926.

3. The Southern Sierras Power Company is hereby authorized to issue and sell, at not less than par, \$26,000. of first and refunding mortgage bonds to reimburse itself on account of moneys expended in retiring a like amount of first mortgage bonds during the years 1917 to 1926.

4. The Southern Sierras Power Company is hereby authorized to issue and sell at not less than par, not exceeding \$255,000. of first and refunding mortgage bonds to refund the outstanding \$300,000. of Coachella Valley Ice and Electric Company bonds.

5. The Southern Sierras Power Company is authorized to amortize the balance of the Unamortized discount and expense on the

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first mortgage bonds and the premium expended in redeeming such first mortgage bonds, on or before January 1, 19~~26~~²⁵.

The authority herein granted is subject to the following conditions:-

- a. Applicant shall keep such record of the issue, sale and delivery of the 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, insofar as applicable, is made a part of this order.
- b. Under the authority herein granted no bonds may be issued, sold or delivered after June 30, 1927.

DATED at San Francisco, California, this 16th day of October, 1926.

H. B. ...
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Thos. ...

Commissioners.