LEM

Decision No. 17688.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN JOAQUIN LIGHT AND POWER CORPORATION for authority to issue and to sell certain stocks and bonds.) Application No. 13275

Murray Bourne, for applicant.

ORIGINAL

BY THE COMMISSION:

OPINION

In this application San Joaquin Light and Power Corporation asks permission to issue and sell $3,000,000.00 of its Series "A" prior preferred six percent stock, $4,000,000.00 of its common stock and $25,000,000.00 of its unifying and refunding mortgage five percent thirty year bonds for the purpose of retiring outstanding bonded indebtedness, of reimbursing its treasury and of financing the cost of the acquisition and construction of extensions, additions and betterments to its plants and properties.

Applicant reportx its authorized and outstanding stock as of September 30, 1926, as follows:-

CLASS OF STOCK	AUTHORIZED	OUTSTANDING
Prior preferred seven percent	$25,000,000.00	$11,582,200.00
Prior preferred Series "A" six percent	50,000,000.00	924,700.00
Preferred Series "A" seven percent	18,500,000.00	6,441,200.00
Preferred Series "B" six percent	6,500,000.00	58,800.00
Common	50,000,000.00	11,000,000.00
Total......................	$150,000,000.00	$30,006,900.00

324

As of the same date, the outstanding bonded indebtedness is reported as follows:-

Unifying and refunding mortgage bonds:		
Series "A" 7's due March 1,1951	$7,000,000.	
Series "B" 6's due March 1,1952	9,633,000.	
Series "C" 6's due May 1,1954	1,500,000.	
Subtotal........................		$18,133,000.
First and refunding mortgage bonds:		
Series "A" 6's due August 1, 1950	1,109,000.	
Series "B" 5's due August 1,1950	799,000.	
Series "B" 6's due August 1,1950	2,125,000.	
Series "C" 6's due August 1,1950	10,192,000.	
Subtotal........................		14,225,000.
Underlying bonds:		
San Joaquin Light and Power Company 5's due June 1, 1945		2,210,000.
Total...........................		$34,568,000.

In making the present application to issue additional stock and bonds, the company asks permission to sell $2,000,000. of six percent prior preferred stock to Western Power Corporation for $95. a share, with the right reserved to re-purchase it at the same price and to re-sell it thereafter through its own organization at a price to net it not less than $93. a share; to sell $1,000,000. of six percent prior preferred stock through its own organization for not less than $93. a share net; to sell the $4,000,000. of common stock to Western Power Corporation for $50. a share; and to sell the $25,000,000. of bonds for not less than 95 percent of their face value plus accrued interest.

At the prices indicated, applicant, if the issue of the securities is authorized by the Commission, will receive the following amounts:-

From the sale of the $25,000,000. of bonds	$23,750,000.
From the sale of $2,000,000. of prior preferred stock to Western Power Corporation	1,900,000.
From the sale of $1,000,000. of prior preferred stock to the general public	930,000.
From the sale of $4,000,000. of common stock to Western Power Corporation	2,000,000.
Total........................	$28,580,000.

325

The company seeks to apply the proceeds to be received from the sale of the stock and bonds toward the following purposes;-

To finance the cost of retiring $22,725,000. of bonds	$24,108,525.00
To reimburse its treasury on account of capital expenditures made prior to September 30, 1926	3,898,895.97
To finance the cost of construction expenditures authorized but to be made subsequent to Sept.30,1926	1,978,113.00
To finance estimated construction expenditures for the year 1927	3,734,677.00
Total..................	$33,720,210.97

The bonds applicant proposes to call and redeem include all of the $14,225,000.00 of first and refunding mortgage bonds, the $7,000,000.00 of Series "A" unifying and refunding mortgage bonds and the $1,500,000.00 of Series "C" unifying and refunding mortgage bonds; a total of $22,725,000.00. The Series "B" unifying and refunding mortgage bonds are non-callable.

It appears that the Series "A" first and refunding bonds are callable at 102.5, the Series "B" and Series "C" first and refunding bonds and the Series "C" unifying and refunding bonds at 105, and the Series "A" unifying and refunding bonds at 107.5. In calling the entire $22,725,000.00 of bonds, a total premium of $1,283,525.00 must be paid and in addition it is estimated that about $100,000.00 must be expended in the refunding operation, making a total cost of $24,108,525.00 to redeem the $22,725,000.00 of bonds. Applicant, however, is asking permission to use the proceeds from the sale of only $22,725,000.00 of the new series "D" five percent bonds to retire the $22,725,000.00 of bonds now outstanding, the remaining amount to be obtained from the sale of stock. The company estimates that a net annual savings of about $204,000.00 should be effected through the transaction. This saving is predicated on the assumption that such money as the company may get from the sale of the common stock used to redeem bonds, costs the company nothing for the reason that no dividends are now being paid on common stock, neither was any consideration given to duplicate interest charges on bonds during the interval of time elapsing between the issue of the new bonds and redemption of the bonds now outstanding.

The record shows that the first and refunding bonds are to be called for payment on February 1, 1927, the Series "A" unifying and refunding bonds on March 1, 1927 and the Series "C" unifying and refunding bonds on May 1, 1927. It is estimated that at the time the bonds are paid there will remain a debit balance on applicant's books of about $1,212,458.00 representing unamortized debt discount and expense applicable to bonds redeemed. Instead of charging this entire amount, together with the premium of $1,283,525.00 to be paid, to profit and loss at one time upon the redemption of the bonds, applicant asks that it be permitted to amortize these balances over the life of the new Series "D" bonds to be issued. We believe that under the circumstances of this case the company should not be required to write off forthwith the unamortized discount, expense and premiums and that its request in this respect should be granted.

Coming to the request of applicant to use security proceeds to reimburse its treasury and to finance construction costs, it appears that applicant reports its uncapitalized construction expenditures up to September 30, 1926 at $3,898,895.97. This amount is determined as follows:-

Uncapitalized balance as of September 30,1925 as per Application No. 12029		$759,251.08
Additions and betterments:-		
1925-October	$280,373.52	
November	344,276.54	
December	299,227.52	
1926-January	429,086.06	
February	475,584.15	
March	500,958.92	
April	585,813.68	
May	696,458.10	
June	528,356.69	
July	605,188.45	
August	611,269.89	
September	340,964.40	
		5,697,557.92
Total		6,456,809.00
LESS-Proceeds from sale of stock		2,557,913.03
Balance		$3,898,895.97

The company's monthly report as of September 30, 1926 shows unexpended balances on construction work authorized by applicant's management to be undertaken during 1926, in the amount of $1,978,113. In its Exhibit No. 6 applicant estimated that its construction program for 1927 will call for an expenditure of $3,734,677. It appears to us that some of the construction expenditures incurred prior to September 30, 1926 were financed in part temporarily by current liabilities and the investment of reserve moneys. To the extent that this has been done, moneys obtained from the sale of bonds and stock should be used to pay such liabilities and reimburse the reserves. From September 30, 1925 to September 30, 1926 applicant's surplus was increased by $531,388.71.

To comply with the Commission's order in Decision No. 13143 dated February 13, 1924 in Application No. 9692 the company filed a stipulation that it would not declare any dividend on its common stock until its accumulated surplus reported on November 30, 1923 at $3,107,203.14 had been increased to an amount of not less than $4,000,000. and that it will not pay dividends on its common stock in an amount which will thereafter reduce such surplus to a sum less than $4,000,000. The company was required to file the stipulation for the purpose of building up the equity behind its preferred stock. It is now urged that the investment of $2,000,000. in $4,000,000. of common stock of the company accomplishes the desired result to the extent of such investment. An analysis of the company's financial statements on file with the Commission shows that its equity behind its preferred stock is now less than it was in 1923 and that even were we to authorize the issue of $4,000,000. of common stock for a consideration of $2,000,000. the situation would not be improved to the extent which warrants the Commission to vacate the order in Decision No. 13143 or grant the company's request to cancel the stipulation referred to herein.

328

In regard to the company's request to issue common stock at $50. per share, it is urged that the proposed price is reasonable and that the investment of $2,000,000.00 in common stock of the company will be to its benefit. Applicant submitted no testimony showing what consideration, if any, the company received for the $11,000,000.00 of common stock outstanding. Our analysis of the company's reports shows that its investment in tangible properties is less than the amount of its outstanding bonds, prior preferred and preferred stock. It is of record that the market value of the company's common stock is now about $43. per share and that it will this year earn about five and one half percent on its $11,000,000. of common stock outstanding. In our opinion, neither the market value of stock as of a particular date nor the earnings for one year can be taken as establishing the fair and reasonable value of stock. There is no doubt in our minds that the price which has been paid for applicant's common stock in an endeavor to secure control of applicant has had the effect of increasing the market value of such stock.

As stated above, the Western Power Corporation has agreed to pay $95. per share for 20,000 shares ($2,000,000.) of applicant's prior preferred stock and has further agreed to give applicant the right to re-purchase such stock in order that applicant might sell said stock to the general public at a net price of not less than $93. per share. It appears to us that the amount of money which the Western Power Corporation would receive from the re-sale of $2,000,000. of stock, is substantially the same which it has agreed to pay for the $4,000,000. of common stock of applicant. The purchase of the $4,000,000. of common stock would, however, give the Western Power Corporation a greater control over applicant. It occurs to us that some of the considerations that prompt this transaction are the temporary investment of Western Power Corporation funds in San Joaquin Light and Power Corporation stock and the securing by Western Power Corporation of a greater control over applicant with a minimum investment in the stock of that corporation. The facts before us do not justify us to authorize the issue of the $4,000,000.00 of common stock. Applicant's request to issue $4,000,000.00 of common stock will be denied without prejudice.

ORDER

San Joaquin Light and Power Corporation, having applied to the Railroad Commission for permission to issue $3,000,000.00 of prior preferred stock and $4,000,000.00 of common stock and $25,000,000.00 of bonds, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the company's request to issue $4,000,000.00 of common stock should be denied without prejudice, and that the money, property or labor to be procured or paid for through the issue and sale of the prior preferred stock and the bonds 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 as follows;-

1. San Joaquin Light and Power Corporation may issue and sell on or before June 30, 1927 at not less than 95 percent of their face value and accrued interest, $25,000,000.00 of its Series "D" unifying and refunding mortgage five percent 30-year bonds and use the proceeds from $22,725,000.00 of said bonds, other than accrued interest, to redeem in part the bonds referred to in the foregoing opinion.

2. San Joaquin Light and Power Corporation may issue and sell for cash on or before June 30, 1927 at not less than $95. per share, 30,000 shares ($3,000,000. par value) of its six percent

prior preferred stock and use, if necessary, of the proceeds received from the sale of such stock, an amount not exceeding two dollars per share of stock sold to pay commissions and expenses incident to the sale of such stock. The remainder of the proceeds, together with such portion of the two dollars per share not needed for said purposes, may be consolidated with the proceeds received or to be received from the sale of the stock heretofore authorized to be issued and sold pursuant to orders in Applications Nos. 5207, 10786, 11033 and 12029. Said consolidated proceeds other than accrued dividends may be used to redeem in part the bonds referred to in the foregoing opinion, to reimburse applicant's treasury and the reserves on account of earnings expended for the acquisition and construction of property prior to September 30, 1926,and to pay indebtedness incurred in acquiring and constructing said properties, and to pay in part the cost of acquiring and constructing the other properties referred to in said opinion.

3. San Joaquin Light and Power Corporation may use the proceeds obtained from the sale of $2,275,000.00 of the bonds herein authorized, other than accrued interest, to reimburse its treasury and reserves on account of earnings expended for the acquisition and construction of property prior to September 30, 1926 and to pay indebtedness incurred in acquiring and constructing said properties and to pay in part the cost of acquiring and constructing the other properties referred to in the forego ing opinion.

4. San Joaquin Light and Power Corporation may use the accrued interest and dividends collected for general corporate purposes.

5. San Joaquin Light and Power Corporation may amortize the balance of the unamortized discount and expense on the bonds which it intends to redeem and the premium to be paid in calling and redeeming said bonds over the life of the Series "D" bonds herein authorized to be issued.

6. San Joaquin Light and Power Corporation 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 insofar as applicable, is made a part of this order.

7. The authority herein granted to issue bonds will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is $2,192.00. The authority to issue prior preferred stock will become effective upon the date hereof.

8. San Joaquin Light and Power Corporation's request for permission to issue $4,000,000.00 of common stock and its request to cancel the stipulation filed in Application No. 9692 be, and the same are hereby denied without prejudice.

DATED at San Francisco, California, this 30th day of November, 1926.

C. L. Seavey

Ezra W. Decoto

Thos. S. Louttit

Commissioners.

Fee # 2192 00/100

H. G. Mathewson

Fee # 23552