

LEM

Decision No. 23243.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SAN DIEGO ELECTRIC RAILWAY COMPANY)
for an order authorizing the issuance) Application No. 16971
of shares of its capital stock.)

Morrison, Hohfeld, Foerster, Shuman & Clark,
by W. L. Holloway, for applicant.

BY THE COMMISSION:

O P I N I O N

In this proceeding San Diego Electric Railway Company asks permission to issue \$5,120,000.00 par value (51,200 shares) of its common capital stock to the J. D. and A. B. Spreckels Investment Company in consideration of cancellation of \$5,120,000.00 of indebtedness owing by applicant to said J. D. and A. B. Spreckels Investment Company.

San Diego Electric Railway Company is engaged in the business of owning and operating an electric street railway system, including motor busses in San Diego County, California. The company has an authorized stock issue of \$10,000,000.00 divided into 100,000 shares of the par value of \$100.00 each. It reports stock outstanding in the amount of \$4,298,000.00.

As of May 31, 1930 the company reports its assets and liabilities as follows:-

<u>A S S E T S</u>	
Road and equipment	\$9,035,523.48
Miscellaneous physical property	60,347.12
Cash on hand	4,802.22
Cash, J. D. & A. B. Spreckels Investment Company, S.F	6,203.31
Cash, revolving funds	2,000.00
Loans and notes receivable	2,668.62
Miscellaneous accounts receivable	7,248.19
Materials and supplies	175,024.01
Other current assets, revolving fund.	3,040.00
Depreciation fund	2,686,339.98
Other deferred assets	242.27
Prepaid insurance	5,218.58
Discount on funded debt	3,035.13
Other unadjusted debits	2,893.43
Construction work in progress	39,241.06
Total assets	<u>\$12,033,826.40</u>

<u>L I A B I L I T I E S</u>	
Capital stock	\$ 4,298,000.00
Funded debt unmatured	356,000.00
Loans payable, J. D. & A. B. Spreckels Investment Company	6,723,460.38
Audited accounts and wages payable	41,820.15
Miscellaneous accounts payable, freight charges	27.08
Accrued interest payable	4,175.89
Liability to trainmen, account accidents	1,309.27
Tax liability	49,300.76
Operation reserve	2,055.14
Accrued depreciation, road and equipment	3,550,907.30
Other unadjusted credits	22,286.88
Reserve for amortizing franchises	28,957.55
Corporate deficit	3,044,474.00
Total liabilities	<u>\$ 12,033,826.40</u>

In Exhibit "I" applicant reports the cost of additions and betterments and retirements for the years 1921 to 1929, both inclusive, and for five months ending May 31, 1930 as follows:

YEAR	Additions and Betterments	Retirements	Net additions and betterments
1921	\$ 200,735.88	\$ 85,403.35	\$ 115,332.53
1922	821,824.30	265,210.22	556,614.08
1923	922,480.62	134,819.81	787,660.81
1924	1,931,630.14	409,002.61	1,522,627.53
1925	1,941,075.57	320,908.53	1,620,167.04
1926	325,058.28	172,558.81	152,499.47
1927	179,104.80	84,998.92	94,105.88
1928	332,980.01	149,535.93	183,444.08
1929	193,573.94	52,833.14	140,740.80
1930-5 months	5,000.67	58,124.74	53,124.07*
	\$ 6,853,464.21	\$ 1,733,396.06	\$ 5,120,068.15

*Credit

It will be observed that the company on May 31, 1930 reported a cash depreciation fund of \$2,686,338.98 and a reserve for accrued depreciation on road and equipment of \$3,550,907.30.

The depreciation fund was created pursuant to the Commission's order in Decision No. 6836 dated November 14, 1919, as amended by Decision No. 11709 dated February 21, 1923 and Decision No. 18842 dated September 29, 1927. It is of record that the moneys paid into the depreciation fund since the date of its creation have been the same as the credits to the company's depreciation reserve. The reason for the difference between the amount in the depreciation reserve and the amount in the depreciation fund is due to the fact that not until the effective date of the Commission's Decision No. 6836 did the company provide for a depreciation fund. It is further of record that the moneys paid into the depreciation fund have been appropriated from operating revenues and that the company's operating revenues have been sufficient since the date of the creation of the depreciation fund to pay into such fund the amount required by the Commission's decision. The amount of money in the fund on May 31, 1930 was on deposit with the J. D. and A. B. Spreckels Investment Company and, according to the testimony, is available to applicant

upon demand. The company is receiving interest on the money so deposited at the rate of five percent per annum, which is the same rate of interest which it pays to the J. D. and L. B. Spreckels Investment Company on moneys which that company has advanced to applicant for construction and other purposes.

On May 31, 1930 applicant was indebted to the J. D. and L. B. Spreckels Investment Company in the amount of \$6,723,460.38. It proposes to pay \$5,120,000.00 of such indebtedness through the issue of \$5,120,000.00 of common stock.

In Exhibit No. 4 applicant reports a net investment in its plant and fixed assets at \$5,555,246.81, and its net worth at \$8,329,951.25, which figures are arrived at in the following manner:

<u>FIXED ASSETS:</u>		
Road and equipment	\$9,035,523.48	
Miscellaneous physical property	60,347.12	
Construction work in progress	39,241.06	
Total property		\$9,135,111.66
<u>LESS</u> , Reserve for depreciation	3,550,907.30	
Reserve for amortization of franchises	28,957.55	3,579,864.85
Net plant		<u>5,555,246.81</u>
<u>NET CURRENT ASSETS:</u>		
Total current assets	209,340.63	
<u>LESS</u> , current liabilities	120,975.17	
Net current assets		88,365.46
<u>MISCELLANEOUS FUNDS AND INVESTMENTS:</u>		
Cash depreciation fund		2,686,338.98
Net worth		<u>\$8,329,951.25</u>

In Exhibit No. 4 applicant further reports capital stock outstanding of \$4,298,000.00; equipment trust certificates outstanding of \$356,000.00; and advances on open accounts payable of \$6,723,460.38; making a total of \$11,377,460.38. The outstanding stock and liabilities exceed applicant's net plant investment by \$5,822,213.57 and its net worth by \$3,047,509.13.

The granting of this application without conditions or limitations would result in an excessive capitalization of appli-

cant's properties, assuming the balance sheet figures submitted by applicant to be correct. If the stock applied for were issued, applicant would have outstanding \$9,418,000.00 of stock and \$356,000.00 of equipment trust certificates; a total of \$9,774,000.00, against a net investment in road and equipment of \$5,555,246.81, or against a net worth of \$8,329,951.25. In addition, it would be indebted to the J. D. and A. B. Spreckels Investment Company in the amount of \$1,603,460.38. There was no evidence submitted to show that applicant's depreciation reserve of \$3,579,264.85, which was deducted in arriving at the net investment in road and equipment accounts and net worth was excessive, nor was there any question raised about the propriety of applicant's cash depreciation fund. For the purpose of this decision we will assume the reserve to be proper and the depreciation fund created to finance the cost of replacements which obviates the necessity of issuing securities to reimburse the depreciation reserve to secure funds to pay for replacements.

The order herein will authorize applicant to issue not exceeding \$3,676,000.00 of stock.

O R D E R

San Diego Electric Railway Company having applied to the Railroad Commission for permission to issue \$5,120,000.00 of common stock, a public hearing having been held before Examiner Fankhauser, and the Commission having considered the evidence submitted, and being of the opinion that applicant should be permitted to issue \$3,676,000.00 of common stock; that the money, property or labor to be procured through the issue of such stock is reasonably required for the purpose specified in this order and that such purpose is

not reasonably chargeable to operating expense or to income; and that this application insofar as it involves the issue of \$1,444,000. of stock should be dismissed without prejudice, therefore,

IT IS HEREBY ORDERED, that San Diego Electric Railway Company be, and it is hereby, authorized to issue and sell on or before March 31, 1931, at not less than par, \$3,676,000.00 of common stock and deliver the proceeds obtained from the sale of said stock, or deliver said stock, to J. D. and A. B. Spreckels Investment Company in payment of \$3,676,000.00 of indebtedness.

IT IS HEREBY FURTHER ORDERED that this application, insofar as it involves the issue of \$1,444,000.00 of stock, be, and the same is, hereby dismissed without prejudice.

IT IS HEREBY FURTHER ORDERED that San Diego Electric Railway Company shall file a report or reports, as required by the Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.

IT IS HEREBY FURTHER ORDERED that the authority herein granted to issue said \$3,676,000.00 of stock and deliver said proceeds or said stock to J. D. and A. B. Spreckels Investment Company in payment of \$3,676,000.00 of indebtedness, will become effective upon the date hereof, and that the other provisions of this order will become effective twenty (20) days after the date hereof.

DATED at San Francisco, California, this 31st day of December, 1930.

C. L. Seaver
W. M. ...
Leon ...
Thos. D. ...
M. ...
Commissioners.