

Decision No. 25168

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SAN GORGONIO ELECTRIC CORPORATION, )  
a California corporation, for an )  
order authorizing acquisition of )  
properties and the issuance of pre- )  
ferred and common shares pursuant )  
to reorganization plan. )

Application No. 18261

**ORIGINAL**

O'Melveny, Tuller and Myer and  
Graham L. Sterling, Jr., by

Graham L. Sterling, Jr., for applicant.

BY THE COMMISSION:

O P I N I O N

The San Gorgonio Electric Corporation asks permission to issue 3730 shares of no par value preferred and 3994 shares of no par value common capital stock, for the purposes hereinafter stated. It also asks that the Commission grant to applicant such certificate of public convenience or necessity or such other franchises or operating rights as may be necessary or proper in the judgment of the Commission, to enable applicant to utilize and operate the properties which it intends to acquire subject to the terms and provisions of the lease to The Southern Sierras Power Company.

This application involves the re-financing of the properties formerly owned by San Gorgonio Power Company and at the time this application was filed, owned by San Gorgonio Power Cor-

poration, Ltd. During 1929 as a result of a trustee's sale, proceedings had pursuant to the terms of the indenture securing the general and refunding bonds of San Gorgonio Power Company, the properties were acquired by San Gorgonio Power Corporation, Ltd., subject to the lien and operation of the indenture securing the payment of the first mortgage seven percent serial gold bonds of San Gorgonio Power Company. Because of the default in the payment of the interest due on the first mortgage bonds, and the default in the payment of the principal of bonds which have heretofore become due, a bondholder's committee was organized. This committee has prepared and submitted to the bondholders a reorganization plan, a copy of which is filed in this proceeding as Exhibit "A".

There are now outstanding against the properties of San Gorgonio Power Corporation, Ltd. \$373,000.00 of seven percent first mortgage bonds issued by the San Gorgonio Power Company, \$90,700.00 of preferred stock and \$135,000.00 of common stock issued by San Gorgonio Power Corporation, Ltd. These latter securities were issued without authorization from the Railroad Commission. In addition, the company reports \$37,870.00 of matured and unpaid interest on the first mortgage bonds for 1930 and 1931 and further reports that there are \$13,335.00 of interest coupons due October 1, 1928 and \$13,090.00 of interest coupons due October 1, 1929 pledged as security for the payment of notes.

It is of record that \$355,000.00 of the first mortgage bonds and interest coupons due in 1931 and 1930 have been deposited under the reorganization plan. There likewise have been

deposited the interest coupons due on October 1, 1928 and October 1, 1929. The reorganization plan contemplates that there will be issued to the holders of the \$373,000.00 of outstanding bonds of San Geronio Power Company 3730 shares of no par value preferred stock and 3730 shares of no par value common stock. The owners of the interest coupons due on October 1, 1929 and on October 1, 1928 are to receive 264 shares of no par value common stock.

The articles of incorporation of the San Geronio Electric Corporation, which is being organized for the purpose of acquiring the properties formerly owned by San Geronio Power Company and now by the San Geronio Power Corporation, Ltd. will provide that the preferred shares of stock shall have the following privileges of preferences:-

1. Preferential dividends at the rate of \$6. per share per annum, cumulative from the date of issuance;
2. Redeemable in whole or in part by lot on any dividend payment date, at \$105. per share plus accrued and unpaid dividends;
3. Preferred as to assets in the event of voluntary dissolution or liquidation to the extent of \$105. per share plus accrued and unpaid dividends, and in the event of involuntary dissolution or liquidation to the extent of \$100. per share plus accrued and unpaid dividends;
4. Retirable either by purchase or redemption at prices not exceeding the redemption price, from a sinking fund to be created, into which shall be paid:  
(a) at least 50% of all net annual earnings from every source after deducting the (1) amount necessary to pay all accrued and unpaid preferential dividends, (2) amounts necessary to pay preferential dividends for current year; (3) all costs and expenses of operation, maintenance and a proper charge for depreciation.
5. Non-assessable.
6. Voting rights on the basis of one vote per share.

The articles of incorporation <sup>are to</sup> further provide that the 3993 shares of common stock which the applicant proposes to issue are to be non-assessable, without par value, and entitled to voting rights on the basis of one vote per share.

Reports filed with the Railroad Commission show that up to December 1, 1929 there was expended on the properties then owned by the San Geronio Power Company the sum of \$505,826.88. On January 1, 1930 when the books of the new company were opened, these same properties were reported at a cost of \$662,962.17. We are advised that the increase of \$157,135.29 was the result of an appraisal. This appraisal has never been submitted to the Commission and we will not recognize it for the purpose of this proceeding. The properties were acquired and built since 1923 and in our opinion there is no justification for increasing their cost by the sum of \$157,135.29. The 1930 and 1931 annual reports show no expenditures for additions and betterments.

Since the inception of the company's business in 1924 the company's gross income or loss, that is, the amount available to pay interest or dividends, has been reported as follows:-

<u>YEAR</u>	<u>INCOME</u>	<u>LOSS</u>
1924	\$16,794.58	----
1925	688.86	----
1926	16,420.84	----
1927	33,470.64	----
1928	6,676.49	----
1929	4,195.60	----
1930	11,856.19	----
1931	-----	\$2,063.49

The testimony shows that the earnings for 1932 may exceed the earnings of any previous year. The average annual net income for the period that the properties have been in operation has been about \$13,440.00.

The fluctuation in the earnings of the company is caused primarily by a variation in rainfall. The entire output of the company's hydroelectric plants is purchased by The Southern Sierras Power Company, by whom the plants are being operated.

In view of the fact that the preferred stock of applicant is redeemable at \$105. per share, in the event of the voluntary dissolution or liquidation of the company, and is entitled to \$100. per share in the case of involuntary dissolution or liquidation of the company, it is our opinion that for the purpose of this proceeding, this stock may be considered as having a value of \$100. per share.

The reports which the San Geronio Power Company and its successor, the San Geronio Power Corporation, Ltd., filed with the Railroad Commission indicate that the cost of the properties of the San Geronio Power Company has been approximately \$505,000.00.

We do not believe that the earnings record of these properties warrants the issue of 3730 shares of \$6.00 per share cumulative preferred stock. It occurs to us that the properties should be re-financed on a basis which is more in keeping with the earning record of the properties. The order herein will permit the San Geronio Electric Corporation to issue in exchange for the \$373,000.00 of outstanding bonds, 2611 shares of cumulative preferred stock and 2611 shares of common stock. The company, if necessary, may also issue 264 shares of common stock in exchange for the interest coupons, to which reference has heretofore been made.

O R D E R

The Commission having been asked to enter its order, as indicated in the foregoing opinion, a public hearing having been had on this application before Examiner Fankhauser, the Commission having considered the evidence submitted at such hearing and being of the opinion that San Gorgonio Electric Corporation should be permitted to issue not exceeding 2611 shares of preferred stock and not exceeding 2875 shares of its common capital stock for the purpose of refinancing the properties formerly owned by San Gorgonio Power Company and referred to in this proceeding, that the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application insofar as it involves the issue of 2238 shares of stock should be dismissed without prejudice, therefore,

IT IS HEREBY DECLARED AND ORDERED as follows:-

1. The Railroad Commission hereby declares that public convenience and necessity require and will require San Gorgonio Electric Corporation, from and after the date hereof, to operate and maintain the properties which it will acquire pursuant to the foreclosure sale under the trust indenture executed by San Gorgonio Power Company, subject to the terms and provisions of the lease of the Southern Sierras Power Company, referred to in such trust indenture.
2. In exchange for the \$373,000.00 of outstanding first mortgage seven percent bonds issued by the San Gorgonio Power Company, San Gorgonio Electric Corporation may

issue, after the date hereof and prior to December 31, 1932, not exceeding 2611 shares of its \$6.00 per share cumulative preferred stock and 2611 shares of common stock, it being understood that if not all of said bonds are deposited under the reorganization plan filed in this proceeding as Exhibit "A", stock may be issued only in proportion to the amount of bonds deposited.

3. San Gorgonio Electric Corporation may issue after the date hereof and prior to December 31, 1932 in exchange for the coupons due October 1, 1929 and October 1, 1928, to which reference is made in the foregoing opinion, not exceeding 264 shares of its common capital stock.
4. San Gorgonio Electric Corporation shall, within sixty (60) days after acquiring the properties purchased at the foreclosure sale under the trust indenture executed by San Gorgonio Power Company, file with the Railroad Commission a certified copy of the deed under which it acquires and holds title to said properties, and a copy of the report or reports filed with the court showing the proceeds realized from the sale of the properties and the expenditure of such proceeds.
5. San Gorgonio Electric Corporation shall keep such record of the issue 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, insofar as applicable, is made a part of this order.

6. This application insofar as it involves the issue of 2238 shares of stock is hereby dismissed without prejudice.

7. Unless otherwise herein stated, this order will become effective twenty(20) days after the date hereof.

DATED at San Francisco, California, this 12<sup>th</sup> day of September, 1932.

O. Searcy  
Leon O'Neil

M. A. C.

M. B. Harris

Fred G. Peterson

Commissioners.