

ES

Decision No. 10167.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF
THE STATE OF CALIFORNIA

* * *

In the Matter of the Application of)
WESTERN STATES GAS AND ELECTRIC COMPANY,)
a corporation, for an order authorizing)
the issue of first and refunding mort-)
gage 5 per cent. bonds of the par value)
of \$195,000.00 and 10-year 6 per cent.)
notes of the par value of \$836,000.00.)

Application No. 7604

Chickering & Gregory, by Allen L. Chickering,
for applicant.

MARTIN, Commissioner.

O P I N I O N

WESTERN STATES GAS AND ELECTRIC COMPANY asks per-
mission to issue and sell \$195,000.00 of its first and refunding
mortgage 5 per cent. bonds due June 1, 1941, and \$836,000.00 of
6 per cent. notes due February 1, 1927, for the purpose of financing
expenditures on capital account. Both the bonds and notes are
callable prior to maturity.

By Decision No. 10118, dated February 21, 1922, the
Railroad Commission authorized applicant, subject to the conditions
of the decision, to issue and sell \$5,000,000.00 of 6 per cent.
25-year bonds for the purpose of financing the construction of a new
hydroelectric power plant. It is estimated that the cost of the
plant will approximately equal the proceeds realized from the sale of
the bonds and that none of the proceeds obtained from the sale of the
bonds will be available to pay the cost of additions and betterments
to its plants and systems during the period that the hydroelectric
plant is being constructed. It is for the purpose of providing

itself with funds with which to pay the cost of such additions and betterments and refund indebtedness, that applicant now asks permission to issue first and refunding mortgage bonds and 6 per cent. notes.

The mortgage securing the payment of applicant's first and refunding bonds provides in general that the trustee may certify additional bonds only if and when the net earnings of the company for a period of twelve months ending not more than sixty days prior to the date of an application for certification of bonds shall have been equal to at least twice the interest charges on all of the company's bonded indebtedness together with the interest charges on the bonds which the trustee is requested to certify.

The agreement under which applicant has been issuing its 6 per cent. notes prohibits the trustee from certifying any of the notes unless the net earnings of the company after making certain deductions specified in the agreement shall for a period of twelve consecutive months ending not more than sixty days prior to the application for certification of the notes, have been equal to at least three times the annual interest charges on all of the notes outstanding, together with the interest charges on the notes which the trustee is asked to certify and on the company's interest bearing floating debt. The agreement further provides that if the proceeds of any of the notes, the authentication of which is sought, are to be used to pay off any underlying bonds, secured indebtedness, floating indebtedness or other obligations of applicant, then such underlying bonds, secured indebtedness, floating indebtedness or other obligations to be so paid shall not be considered as outstanding in the calculations used as a basis for the authentication and delivery of the notes under the agreement.

In view of the restrictions imposed by the first and refunding mortgage and the agreement relating to the issue of notes, it is believed by applicant's officers that unless the notes and bonds covered in this application are certified before the \$5,000,000.00 of

bonds are sold that applicant will be handicapped throughout the remainder of this year in financing the cost of its additions and betterments. It is to avoid such a situation that this application has been filed. If granted, applicant will forthwith ask the trustees under the first and refunding mortgage and under the note agreement to certify or authenticate the \$195,000.00 of bonds and the \$836,000.00 of notes.

In the agreement under which the company has issued and proposes to issue its 6 per cent notes, it covenants that it will not mortgage, pledge or otherwise encumber any of its property, - real personal or mixed, - unless and until it shall by mortgage or deed of trust secure the carrying out of the terms of the agreement and the payment of the principal and interest of the notes issued and issuable under the agreement equally and ratably with the bonds, notes or other obligations secured by such mortgage or deed of trust. It, therefore, appears that through the execution of a new mortgage, the 6 per cent. notes heretofore issued, and now proposed to be issued, will constitute a direct lien on the company's properties.

Applicant through the acquisition of the properties of the American River Electric Company has become liable for the payment of the American River Electric Company bonds. There are now \$207,000.00 of these bonds outstanding in the hands of the public. They bear interest at the rate of 5 per cent. per annum and mature on July 1, 1933, but are callable at 107-1/2 and accrued interest on any interest payment date prior to their maturity. The redemption of these bonds has been made a condition precedent to the release of property from the lien of applicant's first and refunding mortgage, which release is necessary to the financing of the new power plant. To redeem the \$207,000.00 of American River Electric Company bonds, applicant asks permission to issue \$207,000.00 of its 6 per cent notes.

Applicant reports that to January 31, 1922, it expended for additions and betterments the sum of \$274,754.82, which has not been obtained from the sale of stock, bonds or notes, the issue of which was authorized by the Railroad Commission. To finance these expenditures, applicant proposes to issue and sell at not less than 91 per cent. of their face value and accrued interest \$301,000.00 of its 6 per cent. notes.

Applicant estimates (Exhibit "B") that during the year ending February 1, 1923, it will have to expend for the acquisition of property and the construction of additions and betterments, the sum of \$961,200. Applicant intends to use the proceeds realized from the sale of its notes and bonds to pay the cost of acquiring and constructing properties listed in its Exhibit "B". The use of the proceeds for these purposes will be covered by a supplemental order or orders in this proceeding.

It appears that applicant has entered into no contract or agreement covering the sale of the notes or bonds. The Commission is asked to make an order authorizing the sale of the notes at not less than 91 per cent. of their face value and accrued interest and the bonds at not less than 83 per cent. of their face value and accrued interest. Applicant, however, does not urge the Commission to determine at this time the minimum price of all the notes and bonds. It does request the Commission to permit it to sell at not less than 91 per cent. of their face value and accrued interest \$301,000.00 of notes netting \$273,910.00, an amount approximately equal to applicant's construction expenditures up to January 31, 1922, against which it has issued no stock, bonds or notes under orders of this Commission. Consideration has been given to applicant's request and I have reached the conclusion that the Commission should fix the minimum price of \$297,000.00 of the notes at 92-1/2 per cent. of their face value and accrued interest, netting at least \$274,725.00.

I herewith submit the following form of Order.

O R D E R

WESTERN STATES GAS AND ELECTRIC COMPANY having applied to the Railroad Commission for permission to issue \$836,000.00 of 6 per cent. notes and \$195,000.00 of 5 per cent. bonds, a public hearing having been held and the Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required by applicant and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED, that WESTERN STATES GAS AND ELECTRIC COMPANY be, and it is hereby, authorized to issue not exceeding \$836,000.00 of its 6 per cent. notes due February 1, 1927, and not exceeding \$195,000.00 of its first and refunding mortgage 5 per cent. bonds due June 1, 1941.

The authority herein granted is subject to the following conditions:

- 1.--Of the notes herein authorized to be issued, applicant may sell not exceeding \$297,000.00 at not less than 92-1/2 per cent. of their face value and accrued interest and use the proceeds to finance in part the construction expenditures reported in this application, and through such financing pay current indebtedness or reimburse its treasury.
- 2.--The remainder of the notes and the bonds herein authorized to be issued shall not be sold by applicant, or otherwise disposed of in any manner, except as hereafter authorized by the Railroad Commission in a supplemental order or orders.
- 3.--Western States Gas and Electric Company shall keep such record of the issue and sale of the notes and bonds herein authorized and of the disposition of the proceeds as will enable it to

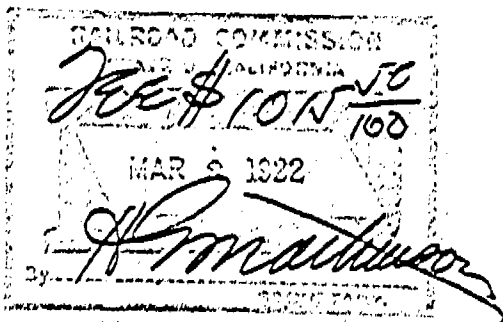
file on or before the 25th day of each month a verified report as required by the Railroad Commission's General Order No. 24, which order in so far as applicable is made a part of this Order.

4.--The authority herein granted will not become effective until applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee amounts to \$1,015.50.

5.--The authority herein granted will apply only to such notes and bonds as may be issued, sold and delivered on or before December 31, 1922.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 7th day of March, 1922.



H. B. ...

Living Martin

J. P. ...

Commissioners.