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Decision No. 10274.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

* * *

In the Matter of the Application of)
SAN JOAQUIN LIGHT AND POWER CORPORATION)
for an order authorizing the issue)
sale and exchange of bonds.)

Application No. 7715

Murray Bourne for applicant.

BENEDICT, Commissioner.

O P I N I O N

SAN JOAQUIN LIGHT AND POWER CORPORATION asks permission to issue \$2,625,000.00 of Series "C" 6 per cent. first and refunding mortgage bonds due August 1, 1950 in exchange for \$2,625,000.00 of convertible/collateral trust 8 per cent. bonds due November 1, 1935 and sell, if necessary, at 99 and accrued interest Series "B" 6 per cent. 30-year non-callable unifying and refunding mortgage bonds to redeem at 104 and accrued interest such of the 8 per cent. bonds as may not be exchanged for 6 per cent. first and refunding bonds. The company also asks permission to issue and sell at 95-1/2 and accrued interest \$3,500,000.00 of Series "B" 6 per cent. 30-year non-callable unifying and refunding mortgage bonds and use the proceeds to finance the cost of additions and betterments. The company further asks permission to pay a 1 per cent. underwriting commission for services rendered by the underwriters in connection with the refunding of the 8 per cent. bonds.

The Railroad Commission by Decision No. 8264, dated October 21, 1920, authorized San Joaquin Light and Power Corporation to issue and sell at 93 and accrued interest \$2,625,000.00 of Series "D" 8 per cent. convertible collateral trust bonds due November 1, 1935.

By the same decision the Commission authorized the company to deposit with the Union Bank and Trust Company of Los Angeles, trustee, \$2,625,000.00 of its Series "C" 6 per cent. first and refunding mortgage bonds for the purpose of securing in part the payment of the 8 per cent. bonds. The execution of a trust indenture under which the 8 per cent. bonds were issued was authorized by Decision No. 8314, dated November 6, 1920. In the trust indenture the company reserved the right to redeem on any interest payment date the 8 per cent. bonds upon the payment of the principal, the accrued interest and a premium of 4 per cent. on the principal. The holders of the 8 per cent. bonds are given the option to convert them into Series "C" first and refunding 6 per cent. bonds at any time prior to maturity or the date on which the 8 per cent. bonds are called for redemption. Regarding the conversion, the trust indenture reads in part as follows:-

"Upon surrender to the Trustee for the purpose of such exchange by any holder thereof of any one of such Convertible Bonds of the face amount of One Thousand Dollars (\$1000.) with all unmatured coupons appurtenant thereto or of any two of such Convertible Bonds of the face amount of Five Hundred Dollars (\$500.) each with all unmatured coupons appurtenant to each thereof (provided that if any such Convertible Bonds shall be registered it shall be by the registered owner thereof transferred to bearer before any such surrender may be made), the Trustee shall deliver to such holder, in exchange for such bond in the face amount of One Thousand Dollars (\$1000.) or for such two bonds in the face amount of Five Hundred Dollars (\$500.) each, one of the Corporation's Series "C" Six Per Cent. First and Refunding Mortgage Gold Bonds in the face amount of One Thousand Dollars (\$1000.) out of the number of such bonds on deposit with it in trust for the uses and purposes of this Agreement, and shall pay over to the person so surrendering such bond or two bonds, as the case may be, in money, and for account of the Corporation, an amount equal to the difference between the sum of Nine Hundred and Fifty Dollars (\$950.) plus accrued interest on such Series "C" Six Per Cent. Bond and the face amount of such Convertible Bond or two bonds so surrendered to it, plus accrued interest thereon."

The refunding of the 8 per cent. bonds is underwritten by Cyrus Peirce & Company and associates. For their services they are to receive a commission of 1 per cent. on \$2,625,000.00, the amount of 8 per cent. bonds outstanding. They have obligated themselves, however, to purchase at 99 and accrued interest such an amount of Series "B" 30-year 6 per cent. non-callable unifying and refunding mortgage bonds as applicant may find it necessary to sell in order to obtain funds required to pay such of the 8 per cent. bonds as are not converted into Series "C" 6 per cent. first and refunding mortgage bonds.

The evidence shows that the conversion or redemption of the 8 per cent. convertible collateral trust bonds at this time is to the advantage of the company.

Applicant also asks permission to issue and sell \$3,500,000.00 of 30-year 6 per cent. non-callable unifying and refunding bonds at 95-1/2 and accrued interest, and use the proceeds to finance additions and betterments to its plants and properties.

In Exhibit "C" filed in this proceeding, applicant reports the cost of acquiring and constructing properties at \$6,373,810.44. From this amount it deducts a balance of preferred stock, \$2,060,898.82, authorized by Decision No. 9989, dated January 12, 1922, in Application No. 7465, leaving a balance of \$4,312,911.62. Applicant requests authority to use the proceeds from the sale of the bonds to reimburse its treasury for, or provide, the cost of making additions, extensions, improvements or betterments to its property made or to be made subsequent to January 1, 1917, the cost of which has not been reimbursed to applicant or provided for from the proceeds of other securities. I believe that before an order is made in this proceeding authorizing the use of the proceeds from the sale of the bonds, applicant should file with the Commission a supplemental application setting forth the amount of money expended for additions, exten-

sions, improvements or betterments which has not been obtained from the sale of stock or bonds. Pending the filing of such a supplemental application and the making of an order by the Commission in response to such application, the proceeds obtained from the sale of the \$3,500,000.00 of bonds should be deposited with a bank or banks, or a trust company or trust companies.

Applicant as of December 31, 1921, had outstanding an interest bearing bonded indebtedness of \$27,027,000.00. This debt consists of \$3,252,000.00 of 5 per cent; \$12,150,000.00 of 6 per cent; \$9,000,000.00 of 7 per cent, and \$2,625,000.00 of 8 per cent. bonds. It is now proposed to redeem the 8 per cent. bonds and substitute therefor 6 per cent. bonds. Substantially all of applicant's bonded debt is callable prior to maturity or matures serially. Applicant asks permission to issue 30-year non-callable bonds and urges that it can obtain a better price for a non-callable bond than for a callable bond. As a policy, the Commission looks with disfavor upon the issuance of long term non-callable bonds. In this instance, however, it appears to the advantage of the company, and in view of all the circumstances surrounding this particular issue, it may be permitted, but should not be regarded as a precedent, or an indication that the Commission under other circumstances will authorize the issue of non-callable bonds.

I herewith submit the following form of Order:-

O R D E R

SAN JOAQUIN LIGHT AND POWER CORPORATION having applied to the Railroad Commission for permission to issue, sell and exchange 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 the issue of the bonds herein authorized 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, as follows:-

- 1.-- San Joaquin Light and Power Corporation is hereby authorized to issue \$2,625,000.00 of Series "C" 6 per cent. first and refunding mortgage bonds in exchange for \$2,625,000 of Series "D" convertible collateral trust 8 per cent. bonds and pay whatever cash is necessary to effect such exchange, all in accordance with the trust indenture under which the 8 per cent. bonds were issued.
- 2.-- San Joaquin Light and Power Corporation is hereby authorized to issue and sell for cash at not less than 99 per cent. of their face value and accrued interest such an amount of its Series "B" non-callable 6 per cent. 30-year unifying and refunding bonds as will yield it sufficient funds to pay in cash at not exceeding 104 and accrued interest the Series "D" 8 per cent. bonds not exchanged for Series "C" 6 per cent. first and refunding mortgage bonds.
- 3.-- San Joaquin Light and Power Corporation is hereby authorized to issue and sell, for cash, at not less than 95-1/2 per cent. of their face value and accrued interest \$3,500,000.00 of Series "B" 6 per cent. 30-year non-callable unifying and refunding mortgage bonds. All proceeds obtained from the sale of such bonds shall be deposited with a bank or banks, or with a trust company or trust companies, until such time as the Commission may by supplemental order or orders indicate the purposes for which the proceeds may be expended.
- 4.-- San Joaquin Light and Power Corporation shall on or before June 30, 1922, file a complete report covering all transactions relating to the conversion or redemption of the Series "D"

8 per cent. convertible collateral trust bonds.

5.--San Joaquin Light and Power Corporation is hereby authorized to pay a brokerage fee of not exceeding 1 per cent. on \$2,625,000.00 for services rendered by underwriters in effecting an exchange of the Series "D" 8 per cent. convertible collateral trust bonds for Series "C" 6 per cent. first and refunding mortgage bonds, or ^{for} providing the company with funds necessary to redeem such 8 per cent. bonds.

6.--San Joaquin Light and Power Corporation shall keep such record of the issue, exchange, and sale 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 in so far as applicable is made a part of this order.

7.--The authority herein granted will not become effective until San Joaquin Light and Power Corporation has paid the fee prescribed by Section 57 of the Public Utilities Act.

8.--The authority herein granted will apply only to such bonds as may be issued, exchanged, sold or delivered on or before October 1, 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 14 day of April, 1922.

H. A. Benedict

\$25,313.00

H. A. Benedict

James Martin
Chas. H. Fowler
H. A. Benedict

Commissioners.