

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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ORIGINAL

In the Matter of the Application of
COAST COUNTIES GAS AND ELECTRIC COM-
PANY for an order authorizing the
issue of debentures of the face value
of \$150,000.00.

} Application No. 920.

H. A. van C. Torchiana for applicant.

THELEN, Commissioner.

O P I N I O N .

This is an application for an order authorizing the issue by Coast Counties Gas and Electric Company of its 6% debentures of the face value of \$150,000.00 for the purpose of reimbursing applicant for moneys heretofore expended from income or from borrowed moneys between March 21, 1912 and August 31, 1913, for capital expenditures.

Applicant heretofore in Application No. 750 requested an order authorizing the issuance of preferred stock of the par value of \$200,000.00 for this same purpose but this Commission in its Decision No. 1124, dated December 13, 1913, denied said application without prejudice on the ground principally that if such authority were granted applicant would then have outstanding an issue of preferred stock of the par value of \$1,200,000.00 and common stock of the par value of \$1,000,000.00 against an equity not to exceed the sum of \$478,958.31. A reference is hereby made to the Commission's opinion in said case, in which opinion the applicant's financial affairs are fully considered.

In said opinion the Commission suggested that it "would look with much more favor upon an arrangement whereby new preferred stock, preferred over the outstanding stock, should be issued rather than preferred stock which participates equally with

the present preferred stock which has not a proper basis of value behind it." Applicant has made efforts to dispose of such stock if it were issued but has reached the conclusion that it would not be possible at the present time to issue such stock without paying entirely too much for the money to be secured from its sale. Applicant introduced evidence at the hearing to show that it would not be possible to sell such preferred stock at the present time for an amount in excess of 80% of its par value on the basis of a 6% preferred stock.

Applicant accordingly looked about for some other method of accomplishing the Commission's suggestion and reached the conclusion that it would be wiser at the present time to issue its 6% debentures. Applicant has made tentative arrangements for selling these debentures for 93% of their face value, together with accrued interest.

Applicant has accordingly authorized an issue of debentures of the face value of \$300,000.00 under the provisions of a proposed debenture trust agreement, a copy whereof is attached to the petition herein and marked "Exhibit D". This agreement is to be dated as of January 1, 1914, and is to be between the Coast Counties Gas and Electric Company and the Mercantile Trust Company. It authorizes the issue of 300 debentures of the sum of \$1,000.00 each, each to be payable to the holder or registered owner thereof on January 1, 1924, and to bear interest at the rate of 6% per annum from date until paid, interest payable semi-annually. The debentures may be called for payment prior to their maturity and may be paid or redeemed by the obligor at its option on the 1st day of January or on the 1st day of June in any year, at their face amount, plus 1% premium and accrued interest. The proceeds of the debentures are to be used only to discharge or lawfully refund the utility's floating indebtedness and to acquire property to be used in its business and in extending and developing the utility's business and service. None of the proceeds are to be used directly or indirectly

to pay any cost of operation, maintenance or replacement, or to discharge or refund any obligation incurred for operation, maintenance or replacement.

Article 15 reads as follows:

"The party of the first part will not make or execute any mortgage, deed of trust or other instrument creating a lien or charge on either the whole or any part of its property, so long as any of these debentures shall remain outstanding, unless the party of the first part shall, out of the first proceeds to be derived by it from the sale or disposition of bonds, notes or other evidences of debt secured by such mortgage or deed of trust or other instrument creating a lien or charge on either the whole or any part of its property, deposit with the trustee a sufficient sum of money for the redemption of all of the aforesaid debentures then outstanding, and with such money redeem such outstanding debentures under and pursuant to the subsequent provisions of this agreement."

Applicant proposes at the present time to issue one-half of the debentures so authorized, having the total face value of \$150,000.00, and to use the proceeds, as far as they will go, to pay off the indebtedness incurred for proper capital expenditures out of income or borrowed money between March 21, 1912 and August 31, 1913. Applicant testified that during said period the proper charges to capital account have amounted to \$218,959.24, as appears on a statement which is attached to the petition herein and marked "Exhibit C". Of this amount \$64,616.81 was paid from the sales of stock leaving a balance of \$154,352.43 representing capital expenditures made in excess of the amounts paid from the proceeds of capital stock. If authority is given to issue the proposed debentures, the sum of \$139,500.00 and accrued interest will be derived therefrom, leaving a balance of something over \$14,000.00 which will have to be paid in some other way. The stock which was sold, as hereinbefore referred to, was issued prior to March 23, 1912.

As bearing on the question whether applicant will be able to pay interest on the proposed additional obligations, it appears from this Commission's said opinion of December 13, 1913, that applicant submitted a statement of earnings for the year ending

June 30, 1913, showing a net profit, after deducting interest on the bonds of applicant's constituent corporations, amounting to \$79,058.18. No depreciation, however, had been charged. Also no allowance was made for the payment of the sinking fund on the outstanding bonds.

It is assumed that the amount properly chargeable for depreciation would be somewhere in the vicinity of \$50,000.00 but this sum has not been taken as establishing definitely the amount which should be so charged.

The annual payments into sinking fund are as follows:

Coast Counties Light and Power Company.....	\$ 10,000.00
Big Creek Light and Power Company.....	3,600.00
San Benito Light and Power Company.....	1,500.00

The payment into the sinking fund of the bonds of the San Benito Light and Power Company will commence on June 30, 1915, and must be made annually thereafter.

Applicant testified that it had incurred relatively large expenditures for extensions to the service, that it had now made practically all the extensions which would be necessary for some time in the territory which it serves and that its financial condition was steadily improving.

Attention should be drawn to the fact that if this proposed issue is authorized, applicant will have added to its capital account subsequent to March 23, 1912, the sum of \$218,959.24 and that its additional obligations will be represented by the proposed debentures of the face value of \$150,000.00, together with a sum somewhat in excess of \$14,000.00 which will have to be taken care of in some other way.

I find that there is a reasonable probability of applicant's ability to pay interest on the proposed debentures. The major portion of the proposed issue will be taken by the present stockholders in the company.

I recommend that the application be granted and submit herewith the following form of order:

O R D E R .

COAST COUNTIES GAS AND ELECTRIC COMPANY having applied to the Railroad Commission for an order authorizing the issuance by said company of debentures of the face value of \$150,000.00, said debentures to be payable on January 1, 1924, and to bear interest at the rate of six (6) per cent per annum, payable semi-annually, under the provisions of a debenture trust agreement to be dated as of January 1, 1914, between Coast Counties Gas and Electric Company and Mercantile Trust Company, and a public hearing having been held upon said application, and the Commission finding that the moneys to be procured by the issue of said debentures are necessary to and reasonably required by said company to reimburse itself for moneys actually expended from income or from borrowed moneys not secured by or obtained from the issue of stocks or stock certificates or bonds, notes or other evidences of indebtedness of such public utility, within five years next prior to the filing of the application herein, for the acquisition of property and the construction, completion, extension and improvement of its facilities,

IT IS HEREBY ORDERED that the Railroad Commission of the State of California hereby authorizes the issue by said Coast Counties Gas and Electric Company of one hundred and fifty thousand (\$150,000.00) dollars, face value, of debentures of said company, bearing numbers 1. to 150, inclusive, payable on January 1, 1924, redeemable at the obligor's option on the 1st day of January or on the 1st day of June in any year, at face value, plus one (1) per cent premium and accrued interest, and to bear interest at the rate of six (6) per cent per annum, payable semi-annually, under and in pursuance of the terms of a proposed debenture trust agreement to be dated as of January 1, 1914, between Coast Counties Gas and Electric Company and Mercantile Trust Company, as trustee, upon the following conditions and not otherwise, to-wit:

1. Coast Counties Gas and Electric Company shall sell said debentures so as to net said company, in cash, not less than ninety-three (93) per cent of the face value of the principal thereof, plus accrued interest.

2. The proceeds from the sale of said debentures shall be used only for the purpose of reimbursing Coast Counties Gas and Electric Company for moneys hitherto actually expended by said company from income or from any other moneys in its treasury not secured by or obtained from the issue of stocks or stock certificates or bonds, notes or other evidences of indebtedness of such public utility, within five years next prior to the filing of the application herein, for the purposes specified in Exhibit "C" attached to the application herein, to which reference is hereby made.

3. Coast Counties Gas and Electric Company shall keep separate, true and accurate accounts showing the receipt and application in detail ^{of the proceeds} of the sale of the debentures hereby authorized to be issued and on or before the 25th day of each month the company shall make a verified report to the Commission, stating the sale or sales of said debentures during the previous month, the terms and conditions of sale, the moneys realized therefrom and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which order in so far as applicable is made a part of this order.

4. This order shall not become effective until the fee specified in Section 57 of the Public Utilities Act, as amended, has been paid.

5. The authority hereby given to issue debentures shall apply only to debentures issued on or before the 1st day of October, 1914.

AND IT IS FURTHER ORDERED that Coast Counties Gas and Electric Company be and the same is hereby authorized to execute the debenture trust agreement as of January 1, 1914, between itself and Mercantile Trust Company, referring to said debentures and

substantially in the form attached to the petition herein and marked "Exhibit D".

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 15th day of January, 1914.

Railroad Commission State of California
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JAN 16 1914
J. H. Markham
BY Assistant Secretary.

H. B. Loveland
Alex Gordon
Max Thelen

Commissioners.