

BEFORE THE RAILROAD COMMISSION
of the
STATE OF CALIFORNIA.

In the Matter of the Application)
of HOLTON POWER COMPANY for per-)
mission to issue first mortgage)
refunding bonds of the face value)
of \$300,000.00.)

Application No. 49.

O P I N I O N .

Edgerton, Commissioner.

This is an application for an order authorizing the issuance by applicant of \$300,000.00 face value of bonds bearing interest at 6% per annum.

Applicant is a corporation organized for the purpose of generating and distributing electricity to towns and communities in the Imperial Valley, in San Diego County, California, and it has been engaged in this business about seven years. In addition thereto, it owns and conducts an ice plant and certain water distributing systems, and also it owns a large block of stock in a railroad operated in said county.

The condition of the capitalization of said company is as follows:-

Stock authorized,.....	\$1,500,000.00
Stock issued,.....	1,250,000.00
Bonds outstanding,.....	500,000.00
Additional bonds authorized October 1, 1911,.....	1,000,000.00

\$500,000. of the last mentioned bonds are set aside for the purpose of retiring the outstanding bonds and \$500,000. are proposed to be used for the purpose of improvements, extensions, etc. Of this latter \$500,000., the Commission is now asked to authorize the issuance of \$500,000.00.

The money obtained from the sale of these last mentioned bonds is to be used to pay off a floating indebtedness of \$251,155.97, or so much thereof as the money realized will permit. This floating indebtedness represents additions and extensions made to the property, and is not wholly or in part reasonably chargeable to operating expenses or to income.

The property of the company which will be security for the payment of all of its bonds, and the valuation placed thereon by the company is as follows:-

Electric plants, etc.,.....	\$520,201.16
Canal,.....	43,996.50
Transmission Lines,.....	85,182.44
Meters and Transformers,.....	15,312.25
Ice plants and depots,.....	258,752.78
Machine & Blacksmith Shop,...	11,557.91
Office building and fixtures,.	12,925.26
Real Estate,.....	<u>178,000.93</u>
Total	\$1,125,889.25

Applicant included values on water rights and franchises of \$650,000.00, in addition to the above named property, but these items have been excluded in considering this application. The corporation also owns stock of the Holton Interurban Railway Company valued by it at \$199,500.00, but this is not included in the property conveyed under the trust deed as security for the payment of bonds issued thereunder.

It is apparent that, exclusive of any possible value of franchises and water rights, there is a reasonable margin of

value between the \$800,000.00 bonds which will be outstanding should this request be granted, and the value of the property which will be security for the payment of these bonds. Furthermore, this corporation is operating in a new and growing community, and it may be reasonably expected that in view of the increases in its business in the past, and the fact that there is a steady increase in population in Imperial Valley, where it operates, that its business will increase. Applicant has been able to pay its bonded and other interest charges, and make in addition a small profit, and as the bonds which are asked to be authorized will replace a floating indebtedness which is drawing a higher rate of interest than these bonds, the fixed charges of the company will not be materially increased.

It is asked that the Commission allow these bonds to be sold at not less than 80% of their face value. This is a low price for bonds, and, under ordinary circumstances, the Commission would hesitate before assenting thereto; but it appears that because of the breaking of the banks of the Colorado River, some years ago, and the consequent flooding of a part of the Imperial Valley, it has been difficult to persuade investors to loan money on property in this valley, except at large rates of interest and for unusually good returns. Without assenting to the proposition that the Imperial Valley or any part of it is in such danger of a recurrence of this flooding that capitalists are justified in charging high rates for money loaned in this territory, I find that conditions are such that in order to raise the contemplated amount of money, applicant may find it necessary to offer these bonds at 80% of their face value.

As to the capital stock heretofore issued, it appears by the testimony that the first \$500,000.00 thereof was paid for at the rate of 30% of its face value, and in addition the organizers of the company, who were the purchasers of this stock,

brought about the making of profits by the corporation to an extent which practically made this issue of \$500,000. of stock represent full value. As to the remaining \$750,000. of capital stock which has been issued, it appears that this stock was given, partially at least, as a bonus on the purchase of the \$500,000. of bonds, which were paid for at par, but as there is considerable property back of this stock in addition to that covered by bonds, and as this stock was issued years before the going into effect of the Public Utilities Act, it does not appear that, under all the circumstances of this case, the application should be denied because of the fact that part of said stock was originally given as a bonus.

I, THEREFORE, recommend that the application be granted.

The following form of order is herewith submitted:

O R D E R.

Application having been made to the Railroad Commission of the State of California by Holton Power Company for an order authorizing the issue by said company of \$500,000.00 face value of its first and refunding mortgage gold bonds, dated October 1, 1911, bearing interest at the rate of 6% per annum, payable semi-annually on the first day of April and the first day of October of each year.

And a hearing having been duly held, and it appearing to the Commission that the money to be secured by the issue of said bonds is necessary and reasonably required by said company for the discharge of its obligations, and that the purposes for which the proceeds of the sale of said bonds are to be used are not in whole or in part reasonably chargeable to operating expenses or income.

IT IS HEREBY ORDERED That the Railroad Commission of the State of California does hereby authorize the issue by Holton Power Company of \$300,000.00 face value of first and refunding mortgage gold bonds, bearing interest at the rate of 6% per annum, payable semiannually on the first day of April and the first day of October of each year, and dated October 1, 1911, or so much thereof as may be necessary for the purposes set out herein.

Said bonds to be issued under and in pursuance of the terms of a mortgage and deed of trust, dated October 1, 1911, executed by Holton Power Company to The Southern Trust Company; a copy of which said mortgage and deed of trust is on file with the application herein, upon the following conditions, not otherwise:

1. Holton Power Company shall sell the bonds hereby authorized so as to net said company not less than 80% of the face value thereof, plus accrued interest at the date of their delivery to the purchaser.

2. The proceeds from the sale of said bonds shall be used for the following purposes only:

For the discharge of obligations as
specified in application.....\$251,155.97

3. Said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of said bonds 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, in accordance with the Commission's General Order No. 24, stating the sale or disposition of such bonds during the preceding month, the terms and conditions of such sale or other disposition, the

moneys realized therefrom and the use and application of such moneys.

4. The authority hereby given to issue such bonds shall apply only to bonds issued by said company on or before the 30th day of June, 1913.

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 3rd day of July, 1912.

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W. J. Gordon

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Max Thelen

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Edwin D. Edgerton
Commissioners.