

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application)
of Pacific Light and Power Cor-)
poration for an order authorizing) Application No. 721
the issue of bonds.)

S. M. Haskins for applicant

EDGERTON, Commissioner.

SUPPLEMENTAL OPINION

Application was originally made herein for authority to issue \$1,730,000 face value of bonds. The purposes for which the proceeds of the sale of these bonds are to be used are stated in the application as follows:

"To reimburse its treasury for moneys expended to refund 497 underlying bonds of Pacific Light and Power Corporation, of the face value of \$497,000.

"To sell 1233 of said bonds to reimburse its treasury for moneys actually expended from income and from other moneys in the treasury not secured by or obtained from the issue of stock or stock certificates, or bonds, within three years last past, said moneys having been expended by petitioner for the acquisition of property, and for the construction, completion, extension and improvement of its facilities, and for the improvement of its service."

The application as to \$497,000 face value of bonds was denied upon the following grounds. I quote from the opinion:

"It appears from the evidence introduced at the hearing that 497 underlying bonds on constituent properties of the Pacific Light and Power Corporation were purchased by applicant at a price not to exceed par, and placed in a sinking fund. The testimony is that the money used for this purchase was taken from the treasury of applicant, and we are asked to authorize the

issue of a like number of applicant's bonds which are to be sold to reimburse the treasury of applicant for this expenditure. The request is for authority to sell these bonds at not less than 83 per cent of their face value.

"The obvious effect of carrying out this plan would be to refund underlying bonds with an issue of a like number of new bonds, the discount to be taken care of in some way not disclosed.

"The main purpose of a sinking fund is to gradually reduce indebtedness created by the issuance of bonds, and in order to carry out such purpose, the sinking fund should, under ordinary circumstances, be maintained from the earnings of a corporation, or at least from sources other than those which create new obligations. Manifestly, to permit the issuance of new bonds with which to acquire underlying bonds to be placed in a sinking fund, in effect, continues the indebtedness of the company and defeats the real purpose of the sinking fund. Of course, if the financial condition of the company is such that its earnings and margin of property over indebtedness warrants the continuance of its obligations undiminished, this process might not be objectionable, but unless this condition is disclosed, the real purpose of creating the sinking fund should be adhered to and it should be maintained out of earnings, thus diminishing the obligations of the corporation."

We are asked in the supplemental application to permit this issue for the purposes stated above, but no convincing showing has been made to this Commission of a financial condition warranting the suspension of the sinking fund at this time.

It is true applicant urges that the sinking fund provided for in its refunding mortgage is very heavy and will be sufficient to retire all outstanding bonds at maturity, but this sinking fund does not commence until September 1, 1914, and to grant this application would mean that there would be no effective sinking fund up to that time. The sinking fund as to the underlying bonds should remain in effect up to September

1, 1914, and thereafter application may be made to this Commission for permission to refund the underlying sinking fund from September 1, 1914, with bonds of the overlying issue. This will result in applicant being burdened with only one sinking fund.

Applicant shows in its supplemental application and data filed therewith that it proposes to retire indebtedness evidenced by promissory notes with the proceeds of the issue of \$1,233,000 face value of the bonds asked to be authorized, and that the money obtained as a result of such indebtedness was used for capital purposes. This meets the objection made to the granting of this portion of the application, and I recommend that the application be granted as to \$1,233,000 face value of bonds, to be sold at not less than 83 per cent of face value, and that the application be denied as to \$497,000 of bonds, and submit herewith the following form of order:

O R D E R

Application having been made by Pacific Light and Power Corporation for an order authorizing the issue of \$1,730,000 face value of forty-year 5 per cent gold bonds, and a public hearing having been held thereon and it appearing to the Commission that the purposes for which \$1,233,000 face value of said bonds are to be used are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that Pacific Light and Power Corporation is hereby authorized to issue \$1,233,000 face value of forty-year 5 per cent gold bonds under the terms of a mortgage and deed of trust dated November 20, 1911, between Pacific Light and Power Corporation and United States Mortgage Trust Company. Said bonds to be issued upon the following con-

ditions, not otherwise:

1. Applicant shall sell the bonds herein authorized so as to net not less than 83 per cent of the face value thereon with accrued interest to the date of delivery.

2. The purposes for which the money realized from the sale of said bonds shall be used are the payment of the following obligations of applicant:

Note dated March 20, 1912, H. E.
Huntington, one day \$355,000

Note dated September 30, 1913,
Huntington Land and Improvement
Company, three months 500,000

Note dated July 18, 1913, H. E.
Huntington, one year 250,000

Total \$1,105,000.

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 first day of May, 1915.

5. The payment of the fee prescribed in Section 57 of the Public Utilities Act shall be a condition precedent to the effectiveness of this order.

The foregoing supplemental opinion and order are hereby approved and ordered filed as the supplemental opinion and order of the Railroad Commission.

Dated at San Francisco, California, this 1st day of May, 1914.

Railroad Commission State of California

J. H. ...
MAY 6 1914
J. H. ...
BY *J. H. ...*
Assistant Secretary.

H. L. ...

Max Thelen

Edwin C. Edgerston

Commissioners.