

ORIGINAL

Decision No. 1525

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of
SAN JOAQUIN LIGHT AND POWER CORPORATION
and SAN JOAQUIN LIGHT AND POWER COMPANY
for an order authorizing the issue of
promissory notes and bonds.

Application No. 992.

Short & Sutherland and W. A. Sutherland for applicants.

THELEN, Commissioner.

SUPPLEMENTAL OPINION.

This is an application on the part of San Joaquin Light and Power Corporation for an order authorizing the issue of certain bonds, as will hereinafter appear in greater detail. Although the application as originally prepared was an application of the San Joaquin Light and Power Corporation alone, an amendment to the application so as to include the San Joaquin Light and Power Company was made at the hearing which was held in the city of Fresno on May 5, 1914. Heretofore, on March 2, 1914, this Commission made its order authorizing the issue of the notes as requested by San Joaquin Light and Power Corporation. The present supplemental opinion and order will accordingly be confined to the question of bonds.

San Joaquin Light and Power Corporation was incorporated under the laws of California on July 19, 1910, and under its articles, has general public utility powers. Shortly after its incorporation, the company acquired by deed, the properties of San Joaquin Light and Power Company, the Power Transit and Light Company and the Merced Falls Gas and Electric Company. The San Joaquin Light and Power Company was the owner of certain hydro-electric properties in the San Joaquin Valley, and also controlled through stock ownership the following corporations: the Madera Light and Power Company, owning and operating an electric plant in and about Madera; the Madera Water Works, engaged in the distribution of water on the east side of the tracks

of the Southern Pacific Railroad Company in Madera; the Madera Electric and Water Company, distributing water on the west side of the tracks of the Southern Pacific Railroad Company in Madera; the Selma Water Works, owning and operating a public utility water system in the town of Selma; and the Lemoore Light and Power Company, engaged in the business of distributing electricity in and about Lemoore.

The Power Transit and Light Company owned certain hydro-electric properties on the Kern river, and also controlled the Bakersfield Gas and Electric Light Company and the Bakersfield and Kern Electric Railway Company, of which companies the former owned and operated a gas and electric light plant in the city of Bakersfield and the latter a street railway in the same city.

The Merced Falls Gas and Electric Company owned and operated gas and electrical distributing systems in and about Merced and owned a small power plant at Merced Falls.

The authorized capital stock of the San Joaquin Light and Power Corporation consists of \$25,000,000, par value, divided into 250,000 shares, of the par value of \$100 each, of which amount 100,000 shares, of the par value of \$10,000,000, are preferred stock and 150,000 shares, of the par value of \$15,000,000, are common stock. The articles provide that the holders of preferred stock shall be entitled to receive from surplus profits, yearly dividends at the rate of 6% per annum, which dividends are declared to be cumulative subsequent to January 1, 1912. Of the stock so authorized, preferred stock of the par value of \$6,500,000 and common stock of the par value of \$11,000,000 has been issued. Of this amount, preferred stock of the par value of \$5,500,000 and common stock of the par value of \$9,995,000 were issued to the stockholders of the amalgamated companies at the time the San Joaquin Light and Power Corporation was incorporated. Common stock of the par value of \$5,000 was issued to the incorporators. Thereafter, and prior to March 23, 1912, the corporation sold \$1,000,000, par value, of preferred stock for \$750,000, and issued as a bonus its

common stock of the par value of \$1,000,000. On August 1, 1910, the books of the amalgamated companies showed resources ~~xxx~~ other than rights and franchises, amounting to \$5,572,719.66. On the same day there were bonds and notes outstanding amounting to \$4,157,691.86, thus leaving a balance of \$1,415,027.80 to meet current liabilities of \$436,310.79, thus showing a book value of tangible assets over liabilities amounting to \$978,717.01. This sum, together with such value, if any, as should be assigned to ⁱⁿ tangible assets, represents the total value for which the San Joaquin Light and Power Corporation issued its preferred stock amounting to \$5,500,000 and its common stock amounting to \$9,995,000. The Company frankly states that its common stock is practically all water, and the same conclusion would seem to follow with reference to a considerable portion of its preferred stock, as the statement of tangible assets and of liabilities hereinafter given will show.

At the time the San Joaquin Light and Power Corporation took over the properties of the amalgamated companies, it acquired them subject to certain bonded indebtedness, as will hereinafter appear. The following table shows the date of issue, the date of maturity, the total par value authorized and the total par value ^{issued} of bonds and two-year gold notes in the hands of the public on February 28, 1914:

TABLE NO. 1

	Date of Issue	Date of Maturity	Total per Value Authorized	Par value not Held by Respondent
San Joaquin Light & Power Corporation, First and Refunding 5's Series "A"	8/1/10	8/1/50-	\$1,500,000	\$1,500,000
San Joaquin Light & Power Corporation First and Refunding 5's Series "B"	8/1/10	8/1/50	23,500,000	2,760,000
San Joaquin Light & Power Company First Mortgage 5's.....	6/1/05	6/1/45	3,000,000	2,695,000
San Joaquin Power Company First Mortgage 5's.....	12/1/02	12/1/42	800,000	129,000
Selma Light & Water Company First Mortgage 6's	Serially	Serially	20,000	10,000
Power Transit & Light Company First Mortgage 5's	6/1/03	6/1/33	2,500,000	105,000
Bakersfield Gas & Electric Company First Mortgage 6's.....	Serially		100,000	16,000
Bakersfield & Kern El.Ry.Co., First Mortgage 5's.....	7/1/01	7/1/31	250,000	94,000
San Joaquin Light & Power Corporation. Two Year Gold Notes 6's	8/1/13	8/1/16	<u>1,875,000</u>	<u>989,889</u>
TOTAL.....			\$33,295,000	\$8,218,000

The San Joaquin Light and Power Corporation also has outstanding \$1,214,000 of its Series "B" bonds, which have been pledged as security for its two-year gold notes, amounting to \$909,000, and \$133,000 of its Series "B" bonds as collateral for a loan from Carl Raiss and Company for \$100,000.

The following table contains a constructive balance sheet of San Joaquin Light and Power Corporation's tangible assets and its liabilities as of February 28, 1914:

TABLE NO. II.

Plant.....	\$11,492,805.13	
Unaudited Inv.--\$83,686.94--30%	86,949.55	
Undistributed disbursements		
\$122,247.67-30%.....	97,798.23	\$11,657,552.81
Deduct amount added to Dam & Reservoir Account....		963,195.01
		<u>\$10,694,357.80</u>
Rights and Franchises, Cash paid....\$	46,136.61	
Organization.....	24,382.52	70,519.13
Cash.....\$	35,797.79	
Notes Receivable.....	216,659.09	
Accounts Receivable.....	410,671.12	
Materials & Supplies.....	362,836.70	
Suspense.....	41,186.93	
Prepaid Tax, etc.....	21,219.34	
Treasury Securities.....	88,892.12	
	<u>\$ 1,177,263.09</u>	
Less Accruals Deposits & Prepayments		
(offset).....	182,984.07	994,279.02
		<u>\$11,759,155.95</u>

LIABILITIES

Bonds	\$ 8,218,000.00	
Accounts Payable.....	280,656.44	
Notes Payable.....	1,103,735.63	
Unaudited Invoices Payable.....	64,560.50	
Pay Roll.....	37,030.74	<u>9,703,983.31</u>
Equity for Stockholders over all Liabilities.....		\$ 2,055,172.64

San Joaquin Light and Power Corporation has heretofore submitted an estimate of the cost to reproduce its physical properties new, as of May 31, 1912. At the hearing of this application the Company introduced its Exhibit No.2, showing also the additions to capital account subsequent to May 31, 1912. The following table shows the general summary by districts of the estimated cost to reproduce new as of May 31, 1912, the amounts expended for additions and betterments subsequent to May 31, 1912, as shown by the books of the

San Joaquin Light and Power Corporation and the total of these amounts as of February 28, 1914:

TABLE NO. III.

<u>Description</u>		<u>Cost to Reproduce</u> <u>May 31, 1912</u>	<u>Additions</u>	<u>Cost to Reproduce</u> <u>February 28, 1914.</u>
Bakersfield-	Electric	\$919,369	\$163,622	\$1,082,991
	Steam Plant	457,937	274,211	732,148
	Gas	382,149	16,274	398,423
	Railway	650,452	821	651,283
		\$2,409,907	\$,454,938	\$2,864,845
Corcoran		83,519	75,294	158,813
Crane Valley		2,491,879	13,745	2,505,624
Dinuba		147,200	60,055	207,255
Fresno		990,654	162,571	1,153,225
Los Angeles			4,271	4,271
Los Banos		111,487	35,988	147,475
Madera-	Electric	92,366	132,078	224,444
	Water	58,602		58,600
		150,968	132,076	283,044
Merced-	Electric	224,947	80,386	305,333
	Gas	68,034	6,089	74,123
		292,981	86,475	379,456
Midway		193,115	129,851	322,966
Selma-	Electric	90,230	65,008	155,238
	Gas	61,709	2,652	64,361
	Water	54,893	12,017	66,910
		206,832	79,677	286,509
Tule River			796,141	796,141
Transmission		976,621	296,623	1,273,244
Telephone lines		94,265	29,039	123,304
Miscellaneous		206,241	71	206,312
San Joaquin P.H. No. 2(Under Construction)			91,302	91,302
TOTAL, SAN JOAQUIN LIGHT & POWER CORPORATION'S	PROPERTIES	\$8,355,669	\$2,448,217	\$10,803,886

While this Commission has not had an opportunity to check over the J. G. White and Company estimate in detail, I desire to draw attention to the fact that this Company's total estimate as of February 28, 1914, amounting to \$10,803,886, tallies closely with the bookvalue of the physical property, amounting to \$10,694,357.80.

It will be observed from Table No. II, that based on the book value of the tangible assets of the San Joaquin Light and Power Corporation, the Company has an equity for its stockholders over all liabilities amounting to \$2,055,172.64. It should be borne in mind in this connection, however, that some depreciation has no doubt taken place, so that the real equity, in so far as the tangible assets are concerned, is somewhat less than this amount.

The San Joaquin Light and Power Corporation now asks authority to issue \$3,041,000 of its first and refunding mortgage Series "B" 5% bonds, for the purpose of retiring all the present outstanding underlying bonds, and the San Joaquin Light and Power Company asks authority to issue \$104,000, face value, of its first mortgage 5% bonds for the purpose of retiring a like amount of San Joaquin Power Company's first mortgage 5% bonds. The application is in the alternative with reference to the \$104,000, face value, of outstanding bonds of the San Joaquin Power Company. Applicant desires to be in the position of issuing bonds of either corporation in exchange for the outstanding bonds of the San Joaquin Power Company, but the intention ultimately is to call in all the outstanding bonds of all the constituent companies, leaving the mortgage of the San Joaquin Light and Power Corporation of August 1, 1910, a first mortgage on all the property of the mortgagor and of the corporations controlled by it.

Applicants also state that they have heretofore issued bonds as follows:

- (1) On May 23, 1913, \$24,000, face value, of San Joaquin Light and Power Company's first mortgage 5% bonds for a like face value of San Joaquin Power Company's first mortgage 5% bonds.

(2) On November 29, 1913, \$1,000, face value, of San Joaquin Light and Power Company's first mortgage 5% bonds for a like face value of San Joaquin Power Company's first mortgage 5% bonds.

(3) On January 26, 1914, \$10,000, face value, of San Joaquin Light and Power Corporation's first and refunding mortgage 5% bonds for a like face value of Selma Light and Water Company's 6% bonds, being the entire outstanding issue of the latter company.

These bonds were all issued without this Commission's prior order, as provided in Section 52 of the Public Utilities Act, and are accordingly all void. Applicants ask this Commission to ratify their acts in issuing said bonds. As this Commission has no power to ratify an act which, under the Public Utilities Act, is void, ab initio, the Commission cannot comply with this request. However, as there apparently was no intention to evade the provisions of the Public Utilities Act, and as the financial condition of applicants will be improved by calling in the underlying bonds, I recommend that authority be granted to applicants to issue their bonds in the amounts heretofore issued in exchange for the underlying bonds which the applicants intended to call in.

The earnings and expenses of the San Joaquin Light and Power Corporation, as shown by its annual report on file with this Commission for the year ending December 31, 1913, are as follows:

TABLE IV.

Earnings

Operating Revenue.....	\$1,652,607.40	
" Expenses.....	<u>915,802.26</u>	
Net Operating Revenue.....		\$736,805.14

Other Income

Rent.....	\$ 4,063.70	
Interest and Dividend Revenue	2,994.39	
Sinking Fund and Accretions...	5,683.84	
Miscellaneous.....	<u>669.38</u>	\$ 13,411.31
Total Income less Operating Expenses.....		\$750,216.45

Forward,..... \$750,216.45

Deductions.

Interest on Funded Debt...	\$343,151.90	
Other Interest.....	76,348.97	
Uncollectible Bills.....	4,595.75	
Rent.....	179.00	
Amortization of Debt Dis-		
count and Expenses.....	16,904.10	
Miscellaneous.....	<u>1,567.24</u>	<u>\$442,746.96</u>
Balance for Year Carried on Surplus		
Account.....		\$307,469.49

The Annual Report of the San Joaquin Light and Power Corporation shows profit and loss statement or corporate surplus account as of December 31, 1913, as follows:

TABLE NO. V.

Additions for Year:

Brought forward from Income	
Account.....	\$307,469.49
Miscellaneous Additions.....	<u>223,512.17</u>
Total,	\$530,981.66

Deductions for Year:

Dividends on stock-\$390,000.00	
Sinking Fund.....	60,604.66
Depreciation not	
covered by Reserve;...8,483.37	
Miscellaneous.....	<u>20,646.15</u>

	<u>\$479,734.18</u>	
Net Surplus for Year.....	\$	51,247.48
Surplus Dec.31,1913.....	\$	23,357.20

Attention should be directed to the fact that although the earnings for 1913 were \$143,135.17 less than the dividends and sinking fund payments a dividend of \$390,000, being at the rate of 6% on the entire outstanding issue of preferred stock, amounting to \$6,500,000, was nevertheless declared. This was made possible by taking from the depreciation fund the sum of \$208,532.46. Applicants' witnesses testified that the amount set aside for depreciation for the years 1910, 1911 and 1912 was larger than necessary and that they had made careful investigations in order to ascertain the proper amount to be set aside for this purpose each year. It seems that prior to 1913,

the Company made depreciation charges on the basis of the following flat percentages:

Electric properties.....	5	5/10	per cent
Gas and Water properties.....	3	25/100	" "
Railway properties.....	3	"	" "

This basis has now been changed, so that a different percentage is used for each item of the property. The average of these percentages on the depreciable property of each class of utility is now as follows:

Electric properties.....	3	21/100	per cent
Gas properties.....	3	26/100	" "
Water properties.....	3	27/100	" "
Railway properties.....	4	8/10	" "

When this new schedule was adopted, the charges for each year from the time the depreciation reserve was set up in 1910 to date were changed to correspond to the new rates, with the result that the Company reached the conclusion that it had credited this fund with the sum of \$208,532.46 in excess of the necessary amount. This sum was accordingly taken from the depreciation reserve fund and credited to the profit and loss account, so that it became possible to meet the sinking fund requirements, and declare a dividend on the preferred stock amounting to \$390,000, and leave a surplus as of December 31, 1913, amounting to \$23,357.20.

This Commission's engineering department has investigated the percentages adopted by the San Joaquin Light and Power Corporation and now set aside for depreciation, and reports that these percentages are not unreasonable. This company will soon present a plan of refinancing, at which time further consideration will be given to this matter. The attention of this utility is hereby directed to the very great danger attendant upon increasing surplus by taking from the depreciation fund of previous years. Such transactions will always be viewed with grave suspicion, particularly when the apparent purpose is to enable the utility to declare a dividend which has not been earned. In so far as this Commission's authority is concerned, it will never sanction such a transaction except upon the clearest proof of its good faith and merit.

While there is obviously a very large discrepancy between the value of the property of the San Joaquin Light and Power Corporation and the amount of stock and bonds outstanding, and while a very considerable portion of the item of rights and franchises, amounting

\$15,463,997.37 should more properly be carried on the books of the Company as "unamortized discount on capital stock," it is unnecessary to consider these matters further at the present time for the reason that the San Joaquin Light and Power Corporation will soon present to this Commission a plan for refinancing the Company in such a way as to establish a more normal relationship between the value of the property and the face value of its stock and bonds, and also for securing funds for necessary additional capital expenditures from sources other than bonds.

I find that applicants' plan of calling in the underlying bonds of the constituent properties is desirable and commendable, and accordingly recommend that the application be granted. Applicants intend to exchange their bonds for the underlying issues, bond for bond, and not to increase their bonded indebtedness as the result of the exchange.

I submit herewith the following form of supplemental order:

SUPPLEMENTAL ORDER.

SAN JOAQUIN LIGHT AND POWER CORPORATION having applied to the Railroad Commission for an order authorizing the issue by said Company of its first and refunding mortgage, Series "B", 5% bonds, of the face value of \$3,051,000, said bonds to be payable on August 1, 1950, and to bear interest at the rate of 5% per annum, payable semi-annually, and secured by a trust deed or mortgage upon all the property of the Company, and San Joaquin Light and Power Company having applied to the Railroad Commission for an order authorizing the issue by said Company of bonds of the face value of \$129,000, said bonds to be payable on June 1, 1945, and to bear interest at the rate of 5% per annum, payable semi-annually, and secured by a trust deed or mortgage upon all the property of the Company, and a public hearing having been held upon said applications, and the Commission finding that the purposes for which said bonds are to be issued are not reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that SAN JOAQUIN LIGHT AND POWER CORPORATION be and the same is hereby authorized to issue \$3,051,000, face value, of principal of bonds of said Company, maturing on August 1, 1950, and bearing interest at the rate of 5% per annum, payable semi-annually, under and in pursuance of the terms of the trust deed or mortgage heretofore and on August 1, 1910, made and executed by said San Joaquin Light and Power Corporation to The Trust Company of America, Trustee, and SAN JOAQUIN LIGHT AND POWER COMPANY is hereby authorized to issue \$129,000, face value, of principal of bonds of said Company, maturing on June 1, 1945, bearing interest at the rate of 5% per annum, ^{payable} /semi-annually, under and in pursuance of the terms of the deed of trust or mortgage heretofore on August 24, 1905, made and executed by said San Joaquin Light and Power Company to Union Trust Company of San Francisco, Trustee, upon the following conditions and not otherwise, to-wit:

1. Said bonds shall be issued at not less than their face value, in exchange for the bonds hereinafter specified.

2. The bonds to be issued by the San Joaquin Light and Power Corporation may be issued only for the purpose of retiring present outstanding underlying bonds, and the bonds to be issued by the San Joaquin Light and Power Company may be issued only for the purpose of retiring underlying bonds of the San Joaquin Power Company, the bonds to be exchanged bond for bond, on condition that this authorization in so far as the bonds of the San Joaquin Power Company are concerned is in the alternative, so that if either applicant exchanges any of its bonds for those of the San Joaquin Power Company, the face value of the bonds which may be issued by the other applicant will be diminished to the same extent.

3. San Joaquin Light and Power Corporation and San Joaquin Light and Power Company shall keep separate, true and accurate accounts showing the issue of the bonds hereby authorized to be issued, and on or before the 25th day of each month, each company shall make a verified report to this Commission, stating the issue or issues of

bonds during the previous month, the terms and conditions of the issue, and the bonds in exchange for which the issue was made, 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 bonds shall apply only to bonds issued on or before the first day of June, 1915, but if an extension of the effective date of this order becomes necessary at that time, application therefor may be made to the Commission.

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

Dated at San Francisco, California, this 18th day of May, 1914.

Railroad Commission State of California
2090-00
MAY 28 1914
BY [Signature]
Assistant Secretary.

[Signature]
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Commissioners.