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Decision No. ✓

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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Decision No. 1955

In the Matter of the Application of SOUTHERN PACIFIC RAILROAD COMPANY and SOUTHERN PACIFIC COMPANY for authority to issue first refunding mortgage bonds sufficient to net $2,540,651.04.

Application No. 1406.

Guy Shoup for applicant.

LOVELAND, Commissioner.

O P I N I O N.

Southern Pacific Railroad Company, in the application herein, states that it has expended from income between January 1, 1913 and June 30, 1914, the sum of $2,540,651.04 for the acquisition of property and the construction of additional lines and facilities. It asks for authority to issue sufficient of its first refunding mortgage bonds to be sold on a basis of 91.0388 per cent of par to reimburse it for these expenditures amounting to $2,540,651.04. Southern Pacific Company, as the owner of the stock and the lessee of Southern Pacific Railroad Company, joins in the application.

A matter of similar character was presented to this Commission in Application No. 1340, decided on October 31, 1914, and reference is hereby made to the decision thereon for a description of applicants' properties and of applicants' first refunding mortgage.

In the application herein Exhibit "A" contains a statement of the expenditures for the fourteen months ending February 28, 1914, for which an issue of bonds is now requested. These expenditures are summarized as follows:

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Construction of New Lines	$ 802.23

	Additions and Betterments.
Automatic Signals	$170,353.79
Tracks	481,409.25
Line Changes	47,519.31
Bridges	75,717.91
Buildings	171,254.87
Water Stations	49,531.49
Miscellaneous	857,342.95
Right of Way and Station Grounds	119,551.85
Total	$1,972,681.42

Property Under Mortgage

Additions and Betterments	$ 1,972,681.42
Construction of New Lines	802.23
	1,973,483.65
Less Value of Material Recovered, Adjustments, etc.	195,656.82
Net Expenditures	$ 1,777,826.83

The applicants' Exhibit "B" purports to be a statement of expenditures for the four months ending June 30, 1914, for which an issue of bonds is herein requested. This statement may be summarized as follows:

Change of Line Salton Desert	$ 160,886.68

	Additions and Betterments.
Automatic Signals	$ 14,983.63
Tracks	41,833.96
Line Changes	10,647.65
Bridges	34,093.07
Buildings	130,657.65
Water Stations	36,159.40
Miscellaneous	346,570.27
Right of Way and Station Grounds	21,061.75
Total	$ 636,007.38

Property Under Mortgage

Additions and Betterments	$636,007.38
Change of Line Salton Desert	160,886.68
	$796,894.06
Less Value of Material Recovered, Adjustments, etc.	34,069.85
Net Expenditures	$762,824.21

The application may therefore be condensed as follows:

For reimbursement for expenditures for fourteen months ending February 28, 1914	$1,777,826.83
For reimbursement for expenditures for four months ending June 30, 1914	762,824.21
Total	$2,540,651.04

At the hearing applicants directed the attention of this Commission particularly to the item "Change of line Salton Desert, $160,886.68". This expenditure was incurred in the period 1907 to 1908. Some question was raised on the part of the Commission at the hearing as to the propriety of this charge, in that it appeared to represent a replacement and not a proper capital expenditure against which bonds should be authorized. The applicants requested authority to withdraw this item, which recasts the application into a request for authority to issue bonds sufficient to yield applicants $2,379,764.36. If sold on the basis of 91.0388 per cent of par, it would be necessary for the applicants to issue bonds to the amount of $2,614,000.

The price of 91.0388 is fixed by the applicants because of the provision in the mortgage under which the bonds may be drawn down for not less than the average price for which bonds of the same issue shall have been sold on the New York Stock Exchange during the previous calendar month. As the New York Stock Exchange has been closed since July, the applicants have taken July as the month to determine the price.

From the evidence presented in this case, I believe the expenditures from income reported by the applicants herein were made for proper capital purposes, as defined under the Public Utilities Act, and I believe the applicants, therefore, should be given authority to issue bonds in sufficient amount to reimburse them for this expenditure.

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

O R D E R .

SOUTHERN PACIFIC RAILROAD COMPANY and SOUTHERN PACIFIC COMPANY having applied to this Commission for authority to issue $2,614,000 of first refunding mortgage bonds, and a hearing having been held and it appearing that the purposes for which the applicants herein propose to issue said bonds are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Southern Pacific Railroad Company and Southern Pacific Company be granted authority and they are hereby granted authority to issue $2,614,000 of first refunding mortgage bonds under the mortgage and deed of trust between the applicants herein and the Equitable Trust Company of New York, Trustee, dated January 3, 1905, a copy of which has been filed in connection with Application No. 1340, to which reference is hereby made, said bonds being guaranteed by Southern Pacific Company.

The authority herein granted is granted upon the following conditions and not otherwise:

(1) The bonds herein authorized to be issued shall be sold so as to net the applicants herein not less than 91.0388 per cent of the par value of said bonds plus accrued interest.

(2) The authority herein granted is conditioned upon the payment of the fee prescribed under the Public Utilities Act.

(3) The authority herein granted shall apply to such bonds as shall have been issued on or before November 16, 1916.

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 23rd day of November, 1914.

H. D. Loveland

Max Thelen

Edwin O. Edgerton

Commissioners.

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