

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

Decision No. 1956

In the matter of the application of
SOUTHERN PACIFIC COMPANY for approval
of a lease of railroad equipment and
for an order authorizing the issue of
equipment trust certificates in the
amount of \$1,170,000.

Application No. 1413.

Guy Shoup for applicant.

LOVELAND, Commissioner.

O P I N I O N.

Southern Pacific Company herein makes application to this Commission for approval of a certain lease of railroad equipment, dated December 1, 1914, providing for the issue of \$1,170,000 of 4½ per cent ten year equipment trust certificates maturing annually in equal installments, from December 1, 1915, to December 1, 1924. These equipment trust certificates are to be guaranteed unconditionally by Southern Pacific Company, both as to interest and as to principal.

Southern Pacific Company proposes to acquire the following equipment:

15 Mikado passenger locomotives @ \$19,969.50.....	\$299,539.50
5 Mikado passenger locomotives @ \$20,054.76.....	100,273.80
10 Switching locomotives @ \$12,112.94.....	121,129.40
30 Steel passenger coaches @ \$10,653.....	319,590.00
20 Steel passenger coaches @ \$10,671.....	213,420.00
16 Electric motor coaches @ \$15,500.....	248,000.00
6 Electric motor coaches @ \$15,550.....	93,300.00
2 Electric motor combination coach and express cars @ \$15,400.....	30,800.00
Total. . . .	\$1,426,052.70

The applicant proposes to pay approximately 15 per cent of the purchase price of this equipment in cash, leaving a balance of \$1,170,000.

It is proposed by Southern Pacific Company to enter into a lease of the said equipment heretofore described, with Commercial Trust Company of Philadelphia, and to enter into an agreement with Harry E. Richter and William L. Fry as the vendors of this equipment, and with Commercial Trust Company of Philadelphia, as Trustee. Copies of this lease and agreement have been filed with this Commission in connection with the application herein as Exhibit "A", to which reference is hereby made.

Under the terms of this lease and agreement the title to the equipment will rest with Commercial Trust Company of Philadelphia, and Southern Pacific Company will acquire the equipment through lease. The unpaid balance of \$1,170,000 upon the purchase price of the equipment will be met through an issue of Southern Pacific equipment trust Series C. certificates. These certificates will carry dividend warrants at the rate of 4½ per cent per annum, payable June 1 and December 1, the certificates maturing serially in amounts of \$117,000 every year for ten years, beginning December 1, 1915.

The certificates will be callable on December 1, 1919 or on any June 1 or December 1 thereafter at 102½ per cent of par. The certificates will be guaranteed by Southern Pacific Company.

The lease provides for rental payments by Southern Pacific Company which shall be equal to the annual installments and the dividend warrants of the equipment trust certificates.

The Southern Pacific may purchase the equipment under certain conditions, and provision is made by which the Southern Pacific assumes title after the payment of the principal of the equipment trust certificates.

Heretofore, in Application No. 484, Southern Pacific Company applied to this Commission for authority to enter into an agreement providing for an issue of its equipment trust certificates, Series A. Thereafter, in Application No. 728, Southern Pacific Company applied to this Commission for authority to enter into an agreement and lease providing for the issue of its equipment trust certificates, Series B. Reference is hereby made to said applications

and the orders of this Commission thereon. The lease and agreement filed in connection with the present application as Exhibit "A" are substantially in form and in most material essentials, similar to the leases and agreements under which this Commission authorized Southern Pacific Company to issue its equipment trust certificates, Series A and Series B. Reference is hereby made to the opinions and orders of this Commission authorizing said equipment trust certificates for the details of said leases and agreements.

The lease and agreement herein proposed differ from those submitted in connection with the issue of applicant's equipment trust certificates, Series A and Series B, in that the present proposal provides for the payment in cash of 15 per cent of the purchase price of the equipment, and does not obligate Southern Pacific Company to pay the Federal income tax for the benefit of the holders of said certificates, whereas the leases and agreements under which applicant's equipment trust certificates, Series A and Series B were issued, provided for the payment in cash of 10 per cent of the purchase price of the equipment and did not absolve the applicant from the payment of the Federal income tax for the benefit of the holders of said equipment trust certificates, Series A and Series B.

It is clear that applicant needs the additional locomotives and passenger coaches which it herein proposes to acquire. The Southern Pacific will lease the electric equipment which it now proposes to acquire, to Pacific Electric Railway Company, which is one of applicant's subsidiaries.

Applicant asks for authority to sell its equipment trust certificates, Series C, on a basis which, with interest warrants, discounts, commissions, etc., will make the interest charge 5.75 per cent, on the basis of the average maturities of said equipment trust certificates.

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

O R D E R.

SOUTHERN PACIFIC COMPANY having applied to this Commission for an order authorizing it to enter into a lease of railroad equipment from Commercial Trust Company of Philadelphia, and to enter into an agreement with Harry E. Richter and William L. Fry and Commercial Trust Company of Philadelphia, said proposed lease and said proposed agreement being both dated December 1, 1914, and a copy of said lease and a copy of said agreement having been filed in connection with the application herein and marked Exhibit "A";

AND SOUTHERN PACIFIC COMPANY having applied to this Commission for an order authorizing it to guarantee an issue of equipment trust certificates, Series C, the issue of which is provided for under the terms of said lease and agreement, dated December 1, 1914, said equipment trust certificates, Series C, to aggregate in principal \$1,170,000, to bear dividend warrants at the rate of 4½ per cent per annum, payable on the first day of June and the first day of December of each year, said certificates to mature in ten equal installments, payable respectively on December 1st of each year, from December 1, 1915, to December 1, 1924, inclusive, a form of said equipment trust certificates and of the guarantee of Southern Pacific Company thereon being contained in said copy of agreement; and Southern Pacific Company having applied also for authority to issue said equipment trust certificates and to pay discounts and commissions which, with the 4½ per cent dividend warrants, shall amount not to exceed 5.75 per cent, on the basis of the average maturities of said equipment trust certificates;

AND A HEARING HAVING BEEN HELD upon said application and it appearing that the equipment to be obtained by Southern Pacific Company under the terms of said lease and said agreement is reasonably required in the conduct of its business, and that the proceeds of said car equipment trust certificates are not reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that the application be and it is hereby granted, subject to the following conditions:

- (1) Southern Pacific Company shall keep separate, true and

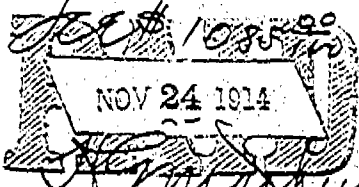
accurate account showing the receipt and application in detail of the proceeds of said car equipment trust certificates, in so far as they affect the equipment to be used by the Pacific Electric Railway Company exclusively within the State of California, and on or before the twenty-fifth day of each month shall make a verified report to this Commission stating the sale or sales of said equipment trust certificates, with the terms and conditions thereof, the money realized therefrom and the issue and application of such moneys, all in accordance with this Commission's General Order No. 24, which order, but only in so far as applicable, is made a part of this order.

(2) The authority herein granted shall become effective only when the Southern Pacific Company shall have paid the fee prescribed under Section 57 of the Public Utilities Act as amended.

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.

Railroad Commission State of California



BY J. W. Mackinson
Assistant Secretary.

H. H. Ireland
W. J. ...
Max Teller
Edwin O. Edgerton
Commissioners.