

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application
of San Diego Consolidated Gas &
Electric Company, a corporation,
for an order authorizing the issue
of bonds of the face value of
\$250,000.

Application No. 192.

A. H. Sweet for applicant.

Thelen, Commissioner.

O P I N I O N.

San Diego Consolidated Gas & Electric Company applies for an order of this Commission authorizing the issue of bonds having a face value of \$208,000 for the refunding of lawful obligations and \$42,000 for the acquisition of property and the construction, completion, extension and improvement of facilities, as will appear hereinafter in greater detail.

Applicant supplies the City of San Diego and surrounding territory as far south as Tia Juana, as far east as Foster and as far north as Del Mar with gas and electricity and is the only company in the field. The City of San Diego has a population of over 60,000 people and both the city and the surrounding territory are growing rapidly.

Applicant was incorporated on March 31, 1905, with an authorized capital stock of \$1,500,000, divided into fifteen thousand shares of the par value of one hundred dollars each. Of the amount authorized, 10,000 shares having a par value of \$1,000,000, were common and 5000 shares having a par value of \$500,000 were preferred. Of the amount so authorized, all the preferred stock, and 6900 shares of the common stock, having a par value of \$690,000,

were actually issued. These shares were issued largely for the property which applicant acquired from its predecessor, the San Diego Gas and Electric Light Company. There is no evidence as to the actual value of the property when acquired by applicant, nor does applicant claim that it was equal to the par value of the stock. In February, 1909, the authorized capital stock was increased from \$1,500,000 to \$3,500,000, consisting of 35,000 shares having a par value of \$100 each, and divided into 10,000 shares of common stock and 25,000 shares of preferred stock. The total capital stock issued under this authorization and up to the subsequent further amendment of the articles of incorporation in 1912, consisted of 18,000 shares of preferred stock, having a par value of \$1,800,000 and 7,350 shares of common stock, having a par value of \$735,000, making a total of \$2,535,000. The additional shares so issued in excess of those issued under the first authorization were sold to the public at or near par and the proceeds used in the development of the plant. In March, 1912, the articles of incorporation were again amended, so that of the total authorized capital stock amounting to 35,000 shares having a par value of \$3,500,000, the authorized preferred stock was reduced from 25,000 shares to 5000 shares, having a par value of \$500,000, and the authorized common stock was increased from 10,000 shares to 30,000 shares, having a par value of \$3,000,000. In the meantime, practically all of the common stock had been acquired from its holders by the Standard Gas & Electric Company, which is owned by H. M. Byllesby & Company of Chicago and the preferred stock had either been so acquired or called in by applicant at \$110 per share.

On August 16, 1912, there were outstanding 109 shares of preferred stock out of a total authorized issue of 5000 shares, and 27,150 shares of common stock, having a par value of \$2,715,000. Of the common stock, all except 18 shares is owned by the Standard Gas & Electric Company.

Applicant's total authorized bonded indebtedness consists of 6000 5% thirty year bonds having a face value of \$1,000 each, totalling \$6,000,000, secured by deed of trust or mortgage dated March 1, 1909, to Harris Trust and Savings Bank, an Illinois corporation, and Los Angeles Trust Company, a California corporation, as trustees. Of the bonds so authorized, 3175, having a face value of \$3,175,000 are issued and outstanding. The bonds hitherto issued have been sold to Harris Trust & Savings Bank at prices ranging from 88 to 94 and including 94 and accrued interest, under a contract providing for the purchase of all the bonds issued. Under the provisions of said contract, the bonds which applicant now desires to issue are to be sold to the trust company for 94 and 95 and accrued interest.

The trust deed provides that no escrow bonds shall be issued unless and until the net earnings of the company for the preceeding twelve months, after deducting all operating expenses, including taxes and proper and reasonable charges for maintenance and renewals, shall have been in each case at least twice the annual interest charge on the bonds outstanding and those applied for. Applicant's profit and loss statement for the year 1911 is as follows:

| | |
|----------------------------------|---------------------|
| Earnings, gas and electric----- | \$745,660.36 |
| Operating expenses----- | <u>366,106.25</u> |
| Net earnings from operation----- | \$379,554.11 |
| Miscellaneous receipts----- | <u>8,159.79</u> |
| Total net earnings----- | \$387,713.90 |
| Deductions: | |
| Bond Interest -- | \$114,517.46 |
| General Interest- | 2,944.05* |
| Organization | |
| expense--- | 3,000.00 |
| Bond discount---- | <u>8,834.44</u> |
| Net income----- | \$123,407.35 |
| Expendd on account of | |
| new business----- | \$ 10,152.17 |
| Operating charges | |
| carried to suspense account | <u>2,582.42</u> |
| Amount carried forward, | \$ 12,734.59 |
| | <u>\$251,571.46</u> |

*Earned as against \$4,501.45 deducted previous year.

| | |
|---------------------|--------------|
| Amount forward----- | \$251,571.46 |
| Dividends----- | 199,791.20 |
| | <hr/> |
| Surplus----- | \$ 51,780.26 |

NOTE. No deductions have been made for depreciation prior to June, 1912, when \$73,500.00 was set aside.

It will be noted that applicant paid a 7% dividend on its entire issued capital stock, both common and preferred, and that it then had remaining for the year a surplus of \$51,780.26, but that no deductions were made during that year for depreciation. Applicant's rate for gas is \$1.00 per thousand. Its rate for electric energy is graded from 9¢ down for lighting and from 8¢ down for power. Its electric energy is produced entirely from steam.

Applicant now asks authority to issue bonds of the face value of \$208,000 to refund outstanding obligations and \$42,000 for the acquisition of property and the construction, completion, extension and improvement of facilities. The obligations consist of the following items:

| | |
|--|--------------|
| Demand note, 7%, executed July 13, 1912 to Standard Gas & Electric Company, ----- | \$235,000.00 |
| Demand note, 7%, executed July 20, 1912 to Standard Gas & Electric Company, ----- | 15,000.00 |
| Accounts payable as of July 31, 1912, ----- | 101,456.91 |
| | <hr/> |
| | \$351,456.91 |

The moneys derived from the notes and represented by the accounts payable were devoted to the following uses all of which, according to the testimony of applicant's vice president, represent permanent additions and improvements made since March 23, 1912:

| | |
|--|-----------|
| Real Estate and buildings- gas department, | \$3974.14 |
| Gas Plant..... | 16505.44 |
| Gas Mains..... | 75892.51 |
| Gas Services..... | 38301.07 |
| Gas Meters..... | 4265.54 |
| Real Estate and Buildings-Electric Dept. | 5952.32 |
| Steam Plant..... | 7760.82 |
| Electric Plant..... | 12613.88 |
| Street Wires and Overhead Wires, overhead, | 103968.30 |
| " " " Wires, underground..... | 41684.88 |

| | |
|------------------------------|--------------|
| Arc Light Installation | \$ 701.77 |
| Electric Services..... | 9191.20 |
| Electric Meters..... | 13691.58 |
| Transformers..... | 16798.40 |
| Office Building | 155.06 |
| | <hr/> |
| | \$351,456.91 |

Under section I of article III of applicant's trust deed the sum of \$73,500 was set aside on June 1, 1912, for what is called a "depreciation and renewal fund." Under the terms of the trust deed, applicant is entitled, as far as affects the relationship between itself and the trustee, to call upon the trustee for certification and delivery of bonds amounting to 75% of the actual and reasonable cash cost to applicant of permanent extensions and improvements to its plant, properties and equipment. By taking 75% of the amount remaining after subtracting \$73,500 from said total of \$351,456.91, applicant derives the sum of \$208,000 as to which authorization to issue bonds is requested in this connection.

If this were a rate inquiry, I should question very closely certain items included in the total of \$351,456.91, particularly an item of 7½% for engineering which is credited to E. M. Byllesby & Company on all construction work, whether it demands the services of Chicago engineers or not. I should question also certain charges for new construction work in cases in which existing gas mains have been taken up and larger mains substituted, without deduction for the value of the existing mains. Under all^{the} circumstances of the present case, however, I am of the opinion that this Commission will be reasonably safe in authorizing the issue of bonds in the amount asked for in connection with the refunding of obligations. The remaining sums necessary for this purpose will be secured from the sale of stock or in some other way.

Applicant also asks authority to issue bonds in the face value of \$42,000 to pay for the acquisition of property and the extension of facilities as follows:

| | |
|---|-----------------|
| Single phase feeder regulators..... | \$13,000.00 |
| Lamp black dryer..... | 5,050.00 |
| Briquetting machine..... | 4,000.00 |
| New 520 h.p. boilers..... | 23,000.00 |
| Incomplete underground system..... | 1,000.00 |
| Gas extensions..... | 3,053.25 |
| Electric extensions - The estimated cost of this improvement, less material returnable, is..... | <u>7,113.37</u> |
| | \$56,216.62 |

✓ Applicant furnished bids and estimates covering most of these items. The desired amount, being \$42,000, is secured by taking 75% of the total of \$56,216.62. I am satisfied that the foregoing items are reasonably necessary in the development of applicant's business and that the proceeds from the issue of bonds as requested are reasonably necessary for said purpose.

After a careful investigation into the application and a cursory inspection of applicant's plant and proposed improvements, I recommend that the application be granted and submit herewith the following form of order:

O R D E R.

SAN DIEGO CONSOLIDATED GAS & ELECTRIC COMPANY having applied to the Railroad Commission of the State of California for the consent of the Commission to the issuance by said company of bonds in the face value of \$250,000, said bonds to be payable on the first day of March, 1939, and to bear interest at 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 duly held upon said application and the Commission finding that the money to be procured by the issue of said bonds is necessary to and reasonably required by said company for the acquisition of property, the construction, completion, extension and improvement of its facilities and the discharge and refunding of its obligations and that said purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that the Railroad Commission of the State of California hereby authorize the issue by San Diego Consolidated Gas & Electric Company of \$250,000, face value of principal of bonds of said company, maturing the first day of March, 1939, redeemable on March first, 1914, or on any interest date thereafter, at par, accrued interest and a premium of 5% on the principal thereof, and to bear interest at 5% per annum, payable semi-annually, under and in pursuance of the terms of the trust deed or mortgage heretofore and on the first day of March, 1909, made and executed by said San Diego Consolidated Gas & Electric Company to Harris Trust & Savings Bank and Los Angeles Trust Company, as trustees, upon the conditions following and not otherwise, to-wit:

1. San Diego Consolidated Gas & Electric Company shall sell said bonds hereby authorized so as to net the said company not less than 94% of the par value of the principal thereof, besides interest accrued thereon.

2. The proceeds of the said bonds shall be applied only to the following purposes, that is to say:

(a) The proceeds from the sale of bonds numbered 3384 to 3425 inclusive, having a total face value of \$42,000, shall be applied for the acquisition of property and the construction, completion, extension and improvement of ^{its} facilities, in amounts not to exceed 75% of the items hereinafter specified for each of the following items:

| | |
|---|-------------|
| Single phase feeder regulators----- | \$13,000.00 |
| Lamp black dryer----- | 5,050.00 |
| Briquetting machine----- | 4,000.00 |
| New 520 h.p. boilers----- | 23,000.00 |
| Incomplete underground system----- | 1,000.00 |
| Gas extensions----- | 3,053.25 |
| Electric extensions - The estimated cost of this improvement, less material returnable, is----- | 7,113.37 |

(b) The proceeds from the sale of bonds numbers 3176 to 3383 inclusive, having a face value of \$208,000, shall be applied for the discharge and lawful refunding of obligations of the company incurred for the acquisition of property and the construction, completion, extension and improvement of its facilities not to exceed the proceeds derived from the sale of bonds hereby authorized, of the face value of \$208,000, the proceeds to be applied to the following obligations so incurred or some portion or portions thereof:

| | |
|---|--------------|
| Demand note, 7%, executed July 13, 1912 to Standard Gas & Electric Company,----- | \$235,000.00 |
| Demand note, 7%, executed July 20, 1912 to Standard Gas & Electric Company,----- | 15,000.00 |
| Accounts payable as of July 31, 1912,----- | 101,456.91 |

3. San Diego Consolidated Gas & Electric Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the 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

stating the sale or sales of said bonds during the previous month, the terms and conditions of sale, the moneys realized therefrom and the use and application of such moneys, all in accordance with the provisions of this Commission's General Order No.24, which, in so far as applicable, is made a part of this order.

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

5. The payment by applicant of the fee specified in section 57 of the Public Utilities Act shall be a condition precedent to the effectiveness of this order.

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

Dated at San Francisco, California, this 4th day of September, 1912.

John M. Eschelman
H. S. Loveland
Max Thelen

Commissioners.