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In the Matter of the Application of the PACIFIC GAS AND ELECTRIC COMPANY, a corporation, for an Order of the Railroad Commission of the State of California, authorizing it to issue, sell and deliver, to the amount of \$5,000,000, its bonds known and designated as "General and Refunding Mortgage Gold Bonds (Series A, bearing 5% interest per annum, due January 1, 1942)", which bonds are to be issued under and secured by its General and Refunding Mortgage, dated December 1, 1911, executed by said Pacific Gas and Electric Company, to Bankers Trust Company, corporate trustee, and Frank B. Anderson, individual trustee.

Application No. 210.

Charles P. Cutten and W. B. Bosley for Applicant.

ESHLEMAN, Commissioner.

O P I N I O N .

Pacific Gas and Electric Company applies for an order of this Commission authorizing the issue of bonds having a face value of \$5,000,000. Applicant proposes to use the proceeds from the sale of these bonds, as far as they may apply, for the purpose of constructing two additional hydro-electric power plants with dams, reservoirs, conduits, ditches, tunnels, flumes, and appurtenances on the South fork of the Yuba River in Nevada County and the Bear River in Placer County; for the construction of an electrical transmission line from these plants to a point in Solano County opposite Crockett in Contra Costa County; for the construction of a new steam power station at Sacramento; for the installation of meters in Sacramento; for the construction of a two circuit steel tower line from Cordelia to San Rafael; and for the extension and improvement of its facilities to meet the growing requirements of its business as set forth in specific detail in the application. According to applicant's figures, the projects to which it desires to devote the moneys to be received from the sale of the bonds will cost

Decision No. 223

\$12,282,441.02. The plan of financing the projects in excess of the sum to be received from the sale of the \$5,000,000 of bonds is left to a later date.

Pacific Gas and Electric Company was formed by the consolidation of a large number of electric power companies.

It is engaged in the business of generating, distributing and selling gas and electricity for light, heat, and power; of generating and distributing steam for heat; of storing, distributing, and selling water for domestic uses and power and irrigation; and of operating a street railway system. Applicant's principal place of business is San Francisco. It sells gas and electricity over a large section of Northern and Central California, including the cities about San Francisco Bay. It sells steam for heating purposes in Oakland and San Francisco, and it owns and operates the street railway system in the City of Sacramento. It supplies electricity to the inhabitants of 187 cities and towns, gas to 49 cities and towns, water to 10, steam to two. It serves with gas and electricity 30 counties of the State.

Applicant owns and operates 17 gas works in cities and towns of the State. The greater part of the electric energy used by applicant is generated in all hydro-electric stations located in the counties of Butte, Yuba, Placer, Nevada, Sacramento, and Amador with a capacity of 92,973 horse power. Pacific Gas and Electric Company also owns and operates four stations for the generation of electricity by steam, two in San Francisco, one in Oakland, and one in San Jose. A fifth steam station is nearing completion in Sacramento. The steam installations have a combined capacity of 99,600 horse power.

The hydro electric installation contemplated in the South Yuba and Bear river development will increase the generating

capacity of Pacific Gas and Electric Company by 40,000 kilowatts.

Applicant submits the following estimates of cost for this development:

Construction of Drum power plant of 40,000 kilowatt capacity.....	\$ 1,650,000
Construction of steel tower transmission lines from Drum power house to Cordelia substation.....	1,389,000
Construction of Concrete dam and spillway...	2,280,000
Construction of canal, forebay and syphon line to convey water from Lake Spalding to Drum power plant.....	<u>1,274,500</u>
	\$ 6,593,500

Applicant lists other general construction requirements at \$2,101,178.51. Included in this estimate are:

Steam power station at Sacramento.....	\$ 409,820.04
Installation of meters on Sacramento services	109,051.00
Two circuit steel tower lines, Cordelia to San Rafael.....	327,550.00

And a large number of improvements in smaller amounts.

For "New Construction arising out of the development of the Company's business and the addition of new consumers from day to day", Pacific Gas and Electric Company proposes to expend to June 30, 1913 the sum of \$3,587,762.51, as follows:

Electric department.....	\$ 1,500,000
Gas department.....	1,000,000
Railway Department (Sacramento).....	250,000
Water Department.....	125,000
Steam Sales.....	125,000
Miscellaneous.....	50,000
New office building at Sacramento and addition to San Francisco Building and other structures.....	350,000
Purchase of property of Los Gatos Gas and Electric Company.....	<u>187,762.51</u>
Total.....	\$ 3,587,762.51

The construction contemplated in the electrical, gas, water and steam departments as above set forth embraces for the most part

the service connections for new business during the year.

These figures, applicant states, are based upon computations of the average cost of service installations and the number of new services that may reasonably be anticipated during the year ending June 30, 1913.

It is obviously impossible for this company to submit a detailed statement of these service extensions in advance. The demand for service must be met as it arises in the daily course of the company's business. In this connection applicant proposes that it file with this Commission monthly statements showing in detail where and for what specific purpose the money derived from the sale of its bonds shall have been expended.

Pacific Gas and Electric Company has an authorized stock issue in the sum of \$160,000,000, of which \$10,000,000 is preferred and \$150,000,000 common stock. Preferred stock to the amount of \$10,000,000 is issued and outstanding. Of the common stock, \$31,998,750 is in the hands of the public and \$31,696,866.66 is held by subsidiary companies.

Under the provisions of the general and refunding mortgage of this company it is authorized to incur a bonded indebtedness in the sum of \$150,000,000. Underlying mortgages are declared closed. Bonds are outstanding against Pacific Gas and Electric Company and in the hands of the public in the amount of \$71,251,000; in the Company's treasury \$251,000; held ~~XXXXX~~ in the Company's sinking fund \$1,888,000.

The \$5,000,000 of bonds proposed to be issued are part of the authorized issue of.....\$ 150,000,000  
of which there are outstanding at the present time...\$ 20,000,000  
there have been cancelled through sinking funds.....\$ 235,000  
Leaving an unissued balance of.....\$ 129,765,000

Under the terms of the mortgage this balance must be applied as follows:

For refunding underlying issues.....	\$ 51,443,000
For additions to plant.....	<u>\$ 78,322,000</u>
	\$129,765,000

For the calendar year, 1911, earnings and expenditures of applicant were:

Gross earnings.....	\$ 14,426,258.52
Operating expenses.....	<u>8,214,071.97</u>
Net earnings from operation.....	\$ 6,212,186.55
Other income (net).....	<u>178,350.78</u>
Total net income.....	\$ 6,390,537.33
Interest.....	<u>3,254,133.27</u>
Balance.....	\$ 3,136,404.06
Bond discount and expense.....	<u>\$ 75,671.84</u>
Surplus earnings.....	\$ 3,060,732.22

Dividends are at the present time distributed on the following basis:

6% on \$10,000,000 of preferred stock..... year.	\$ 600,000 per
5% on \$31,998,750 of common stock..... per year.	\$ 1,599,937.50
Total Dividends.....	<u>\$ 2,199,937.50</u>

Sinking fund requirements under the general and refunding mortgage amount to one percent of outstanding bonded indebtedness and bonds alive in sinking fund, which at the present time means an annual charge of \$731,390.

In its statement of assets of December 31, 1911 applicant gives "plant and other property" at \$108,791,049.17.

Applicant now petitions for authority to sell \$5,000,000 of its general and refunding five percent 30 year gold bonds of the denomination of \$1,000 each and to be numbered Series A from Number 20236 to Number 25235 inclusive, to be issued under and secured by applicant's general and refunding mortgage bearing date of December 1, 1911 and executed by and between Pacific Gas and Electric Company,

Bankers Trust Company of New York, corporate trustee, and Frank B. Anderson, individual trustee, of San Francisco.

Under the terms of this mortgage additional bonds may be issued for betterments, improvements, extensions, and acquisitions of new property only when the earnings available for bond interest are at least one and one-half times the interest on all outstanding bonds including the bonds to be issued, save such as may be held in sinking funds. Bonds may be issued in a sum not to exceed 90 per cent of the cost of the additions to property.

Applicant has contracted for the sale of its bonds in the sum of \$5,000,000 to J. P. Morgan and Company of New York at 85 per cent of their face value.

I am not at all satisfied with the Company's financial statement. It is in entirely too general a form and admittedly is not based upon anything except estimates.

In 1910 the report of this Company to the Commission shows "Rights and Good Will \$19,998,500", while in 1911 the same item appears as \$12,592,849.47. It is explained that this discrepancy is brought about partly by the fact that the Company had in its treasury or used in its system for extensions a considerable amount which could have been properly attributed to dividends. I do not consider that the explanation is satisfactory, and, as it was admitted by one of the witnesses for the Company, this item is arrived at by taking the par value of the common stock.

We have heretofore discussed the relationship which exists under the California Practice of financing between outstanding stock issues and the value of the property (in re Application of Northern California Power Company, Application No. 62).

Under the terms of the deed of trust the Company may only receive the proceeds from \$900 par value of bonds when it has expended \$1000 for purposes that are entirely proper under the Public Utilities Act against which to issue bonds. Bearing in mind the

fact that these bonds are to be sold at 85 it is readily seen that of every dollar's worth of money which the Company must expend on additions, betterments, etc., it may only realize 76½¢ from the proceeds of this bond issue. This leaves a difference of 23 5/10¢ in every dollar which must be realized from other sources. It is stated that it is expected to make up this difference from money now in the treasury, from legitimize profits turned back into the business and therefore available for capital, and from money properly assignable to a depreciation account. It well may be that these sources will not yield a sufficient amount to make up the needed sum, in which event the money will have to be secured from the sale of the common stock which is the only other asset of this corporation. The practice of devoting current revenues to capital account is a dangerous one unless it is carefully restricted. Rates should only be high enough to render a reasonable and adequate return upon the property used and necessary in the public service. If more than this is realized from rates, they are too high, and while the legal title to such excessive return probably is in the Company since it is acquired from legally established rates and so may be legally invested in a capital account, yet by so doing ultimately the Company will secure the entire title to its property from its rates provided it is allowed in addition a proper depreciation charge. It should be very carefully determined, therefore, that investment in capital from revenue is drawn entirely from revenue which is the result of reasonable rates.

While I am not satisfied with the valuations set out by this Company still I have no hesitancy in approving this bond issue because of the fact that the value of the added property will considerably exceed the amount of increase of the outstanding obligations, and the Company as a result of this bond issue alone, if the terms of the trust deed are complied with, will be in a better position financially than before the issue. Furthermore the earnings during the past two years show that from the standpoint of its earnings the Company is easily able to take care of

this added outstanding obligation.

On the 23rd day of October, 1911, the common stock of petitioner was increased from \$20,000,000 to \$150,000,000. Applicant explains that this was done because of its desire to provide for the \$150,000,000 bond issue covered by the deed of trust filed herein and the then necessity of having the authorized capital stock equal to the proposed bond issue. Any attempt to forestall legislative control of stock and bond issues is strongly disclaimed. Practically the entire issue of \$10,000,000 preferred and \$20,000,000 common was issued and in the hands of the public at the time of the increase of capital stock heretofore referred to. There is at the present time issued and outstanding \$10,000,000 preferred stock and \$63,695,616.66 common thus indicating that since the increase in its capital stock the Company has disposed of approximately \$43,695,616.60, of this amount \$31,696,866.66 is in the hands of subsidiary corporations and from the evidence it appears that this entire amount is held by the San Francisco Gas and Electric Company, and was turned over to it in return for its property before the effective date of the Public Utilities Act. I would advise a very careful investigation into the affairs of this subsidiary Company holding this large block of stock at the present time were it not for the fact that the officials of the Pacific Gas and Electric Company who control this company stated under oath that it never has been and is not now the intention of this corporation to dispose of any of said stock, and counsel for the Pacific Gas and Electric Company stipulated in the record at this Commission's request to submit all of the facts surrounding the ownership of this stock and the condition of this Company to the Commission, and not to take any action with reference thereto without the further consideration of this Commission. Were it not for these facts and the further fact that very large additional bond issues are contemplated by applicant from the amount authorized and covered by the deed of trust I would recommend that conditions be imposed concerning



this stock, but I rely upon the assurance of the officials of this Company, and furthermore if any necessity appears the matter can be gone into and the interest of the public can be easily protected at the time of subsequent applications. The time within which the agreement for the sale of these bonds must be executed is short, and unless there should be some controlling public consideration I do not believe it is necessary to impose conditions the effect of which might be to interfere with the getting of the funds from this bond issue which seem to be immediately necessary. As to the probable success of this enterprise the Commission has heretofore in several instances stated that it does not guarantee the success of any enterprise, but the evidence seems to indicate that at a much smaller cost per horse power than the original installation would require, this large additional installation may be made available, and that there is a probability that a market may be found by this Company for the same.

I therefore submit the following order:

O R D E R .

Application having been made to the Railroad Commission of the State of California by the Pacific Gas and Electric Company for authority to issue \$5,000,000 par value of its general and refunding mortgage gold bonds under the terms and conditions set out in its general and refunding mortgage of December 1, 1911, by and between said Company and the Bankers Trust Company of New York, corporate trustee, and Frank B. Anderson of San Francisco, individual trustee, which mortgage is duly on file with this Commission in this case and reference to which is hereby made for particulars, said bonds to be payable January 1, 1942, and to bear interest at the rate of 5 per cent per annum, payable semi-annually and to be of the denomination of \$1,000 each and to be numbered Series A, No. 20236 to No. 25235, inclusive,

And a hearing having been regularly held and it appearing that said applicant has entered into a contract with J. P. Morgan

and Company of New York for the sale and delivery of all said bonds at 85 per cent of their par value and accrued interest thereon, which sale and delivery was made conditional upon the applicant's obtaining from the Railroad Commission of the State of California, the necessary consent and authority therefor, and

It further appearing that the money to be procured by the issue, sale and delivery of said bonds of the Pacific Gas and Electric Company to the amount of \$5,000,000, face value payable at a period of more than twelve months after date hereof, to-wit: January 1, 1942, is necessary to and reasonably required by said Pacific Gas and Electric Company for the acquisition of property and for the construction, completion, extension and improvements of its facilities and service, and

It further appearing that said purposes are not in whole or in part reasonably chargeable to operating expense or income.

**IT IS HEREBY ORDERED AS FOLLOWS:**

The Pacific Gas and Electric Company, the applicant herein, is hereby authorized to issue \$5,000,000 face value of the principal of said bonds to be payable January 1, 1942 and to bear interest at the rate of 5 per cent per annum, payable semi-annually, which said bonds are to be designated as "general and refunding mortgage gold bonds" of the denomination of \$1,000 each and to be numbered Series A, No. 20236 to 25235, inclusive, and are to be in the form prescribed by and are to be issued under and in pursuance of the terms of and secured by that certain general and refunding mortgage of December 1, 1911, and executed by and between Pacific Gas and Electric Company, a corporation, the applicant herein, party of the first part, and Bankers Trust Company, a corporation, organized and existing under and by virtue of the laws of the State of New York, the corporate trustee, and Frank B. Anderson of the City and County of San Francisco, State of California, individual trustee, parties of the second part, on the following conditions and not otherwise, to-wit:

1. Said Pacific Gas and Electric Company is hereby authorized to sell said bonds at not less than 85 per cent of their par or face value and accrued interest thereon;

2. The proceeds from the sale of said bonds shall be applied by said applicant, the Pacific Gas and Electric Company, only to the acquisition of property used or useful in the performance of its service to the public and for the construction, completion, extension and improvement of its facilities and service, for the reimbursement of any moneys which have been expended since July 31, 1912 or which may hereafter be actually expended from its income or from other moneys in its treasury not secured by or obtained from the issue of stocks or stock certificates or bonds, notes or other evidences of indebtedness of said Pacific Gas and Electric Company for any of the aforesaid purposes;

3. Said Pacific Gas and Electric Company, the applicant herein, shall keep separate and accurate accounts showing the receipts and application in detail of the proceeds of the sale or disposal of said bonds hereby authorized to be issued and shall monthly make a verified report to the Commission as required by General Order No. 24 of this Commission (which order so far as applicable is made a part of this order), stating the sale or sales of bonds during the previous month, the amount of money realized therefrom and the use and application in detail of said money and the specific purposes for which each and every part of said moneys so derived from the sale of said bonds have, during the preceding month, been expended and in no event shall any expenditure be made from the proceeds of the sale of such bonds for any purposes other than the ones set out herein; and the specific purposes for which such expenditures may be made and the amount spent for any one of the purposes not to exceed the respective amounts which follow:

Construction of Drum power plant of 40,000 kilowatt capacity.....	\$ 1,650,000
Construction of steel tower transmission lines from Drum power house to Cordelia substation.....	1,389,000
Construction of concrete dam and spillway....	2,280,000
Construction of canal, forebay and syphon line to convey water from Lake Spalding to Drum power plant.....	1,274,500
Steam power station at Sacramento.....	409,820.04
+ Installation of meters on Sacramento Service.	109,051 +
+ Two circuit power line Cordelia to San Rafael	327,550 +

For new construction arising out of the development of the  
Company's business and the addition of new consumers:

Electric Department.....	\$ 1,500,000
Gas Department.....	1,000,000
Railway Department.....	250,000
Water Department.....	125,000
Steam Sales.....	125,000
New office building at Sacramento and San Francisco.....	350,000
Purchase of property of Los Gatos Gas and Electric Company.....	187,762.51

While these amounts exceed substantially the entire amount of this  
bond issue, still the Company may be permitted to expend an amount  
on any one of these various projects not exceeding the amount herein  
specified, the total amount which may be expended on these various  
enterprises from this bond issue of course being limited to the  
proceeds of the \$5,000,000 bond issue herein authorized. Any  
additional amounts which may be expended for these purposes must be  
made up from other sources or from subsequent bond issues approved  
by this Commission.

The foregoing opinion and order are hereby approved

and ordered filed as the opinion and order of the Railroad Commission.

Dated at San Francisco, California, this 14th day of  
September, 1912.

John M. Esleman

H. D. Loveland

Alvin Gordon

Max Thelen

Edwin O. Edgerton

Commissioners.