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Decision No. ________

Decision No. 2335

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the matter of the application of SAN JOAQUIN LIGHT AND POWER CORPORATION for an order authorizing the payment of additional interest on outstanding bonds and the issuance of certain additional bonds.	Application No. 1516.

Short and Sutherland, by W. A. Sutherland, for applicant; Julius A. Landsberger, Victor J. Robertson, W. N. Moore and Ambrose Gherini for certain Preferred Stockholders of applicant.

THELEN, Commissioner.

O P I N I O N

In this application San Joaquin Light and Power Corporation asks for authority as follows:

(1)-To increase the rate of interest from 5% to 6% per annum on $2,924,000.oo face value Series "B" forty-year First and Refunding Mortgage Gold Bonds dated August 1, 1910, and now outstanding, provided the holders of the bonds pay into the treasury of San Joaquin Light and Power Corporation the sum of $100.oo for each $1,000.oo bond owned;

(2)-To execute to Lyman Rhodes, trustee, a mortgage and deed of trust securing the payment of the additional 1% interest on said Series "B" bonds;

(3)-To issue in lieu of $1,532,000.oo face value 5% Series "B" 40 year First and Refunding Mortgage Gold Bonds, $1,532,000.oo face value 6% Series "C" First and Refunding Mortgage Gold Bonds dated August 1, 1910; of which $1,532,000.oo five per cent. Series "B" bonds,

$1,272,000.oo are pledged as collateral and the remainder are in applicant's treasury;

(4)-To issue and sell additional 6% Series "C" 40 year First and Refunding Mortgage Gold bonds, dated August 1, 1910, to the face value of $50,000.oo.

Although this application asks for authority to issue and sell additional bonds to the face value of $136,000.oo, the testimony shows that the $136,000.oo includes bonds to the face value of $86,000.oo heretofore authorized by this Commission to be issued, pledged or sold.

Applicant desires the authority of this Commission to either deposit as collateral $1,272,000.oo face value 6% Series "C" First and Refunding Mortgage Gold Bonds dated August 1, 1910, in lieu of a like amount of 5% Series "B" First and Refunding Mortgage Gold Bonds now pledged to secure the payment of $954,000.oo face value of two year collateral trust notes due August 1, 1915, or to sell the bonds at a price to be determined by the Commission and use the proceeds of such sale to retire the said two year collateral trust notes. The proceeds to be obtained from the remainder of the bonds, which applicant desires to sell, together with the additional moneys to be paid by the present holders of Series "B" bonds, applicant desires to use to discharge, so far as possible, floating indebtedness amounting to $963,216.26, represented by notes payable, as shown in Exhibit "A" attached to this application.

The history of San Joaquin Light and Power Corporation and its capitalization in relation to the value of physical properties were considered in Decision No. 1525, dated May 18, 1914, to which Decision reference is hereby made.

The deed of trust, dated August 1, 1910, securing the payment of $25,000,000 .oo face value Forty Year First and Refunding Mortgage Gold Bonds of San Joaquin Light and Power Corporation provides that of such bonds, $1,500,000.oo face value shall bear 6% interest per annum and that the remaining bonds, $23,500,000.oo face value may from time to time be issued in series, the interest to be fixed by the Board of Directors but in no case to exceed 6%.

Applicant reports as issued and in the hands of the public $2,924,000.oo face value 5% Series "B" bonds and that it has in its treasury, or pledged as collateral, $1,532,000.oo face value 5% Series "B" bonds. On all of these Series "B" bonds, applicant desires to increase the rate of interest to 6%. The bonds having been issued, the Board of Directors no longer has the power to determine the rate of interest. It is for this reason that it is proposed to execute the Supplemental Mortgage and Deed of Trust, to which reference has been made, to Lyman Rhodes, trustee.

To secure the payment of the additional one per cent. interest, the company proposes to convey to Lyman Rhodes, trustee, all the property covered by the granting clauses of its First and Refunding Mortgage. The property to be conveyed to Lyman Rhodes, trustee, is subject to the company's First and Refunding Mortgage, and to any other lien which is now or may hereafter become prior thereto.

This supplemental indenture provides that at the request of the President or Vice-President and the Secretary or Assistant Secretary of the Company, The Equitable Trust Company of New York shall endorse on Series "B" bonds, upon which additional interest
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✓ 1% to be paid the following:

> "For value received, San Joaquin Light and Power Corporation promises to pay on the within bond, without deduction for taxes of any kind, interest (additional to the five per cent. interest therein specified) at the rate of one per cent. per annum until such bond is paid, the interest maturing on or prior to the maturity of the bonds to be payable only upon the presentation and surrender of the semi-annual interest coupons attached to said bond representing such additional interest payments, as such coupons severally mature. This agreement to pay such additional interest and the coupons representing the same are secured by and subject to all the terms and conditions of an indenture dated 1915, executed by said corporation to ____________ as Trustee.
> Dated ______________.
>
> SAN JOAQUIN LIGHT AND POWER CORPORATION,
> By The Equitable Trust Company of New York,
> Attorney-in-Fact."

Only bonds bearing this endorsement shall be entitled to the benefit of this supplemental deed of trust.

The holders of the outstanding Series "B" bonds may receive 6% interest only on the condition that they pay into the treasury of San Joaquin Light and Power Corporation $100.oo for each bond held by them.

The representative of the applicant states that it has adopted this expedient for the reason that an offering of 6% bonds would tend to depreciate the market value of the outstanding 5% bonds. The evidence shows that San Joaquin Light and Power Corporation has sold its Series "B" bonds at prices ranging from 85% to 88% of their face value. The average price received was approximately 86% of the face value.

Should the bondholders pay the $100.oo additional in order that they might be entitled to receive 6% interest per annum, the average price of the bonds would be increased to 96% of the face value. Various witnesses for applicant testified that San Joaquin Light and Power Corporation could not at this time dispose of its 5% bonds on as high a basis as 85. Some were of the opinion that in large block, the bonds could not be sold at even 80.

Applicant submitted several statements showing the additional cost to the company of issuing 6% bonds at 95 to replace 5% bonds now outstanding. No amount of calculation can change the fact that a 5% 40 year bond sold at 86 is less expensive financing than a 6% bond sold on a 96% basis. Applicant, however, contends that by virtue of reducing its indebtedness, it will be able to borrow money at better rates and that its general credit will be improved.

I have not been greatly impressed with the showing which the applicant has made in its effort to establish that this substitution of 6% bonds for 5% bonds will work to its ultimate advantage. In its basic aspect, my primary objection rests upon the voluntary assumption by this utility of a high interest rate upon its securities already issued and outstanding. That there may be certain compensating advantages may be true. After a careful inquiry into all of the calculations, showing the effect of the exchange of bonds upon the cost of money to the San Joaquin Light and Power Corporation, I would be loth to recommend that this plan be approved were it not for the fact that the directors and bankers of this corporation have insistently urged that it was the best that could be done under all of the circumstances.

I am less disposed to go into this matter at greater length because it has been made evident to this Commission that the applicant will through a curtailment of salaries paid to two of its executive officers, not in active personal management of the property, effect an annual saving which will more than offset any extra cost that may be occasioned by the substitution of 6% bonds for the 5% bonds. These two executive officers, previously in receipt of $12,000.oo per annum each, will henceforth receive $6,000.oo each, - the saving to the company amounting to $12,000.oo per year.

At the hearing of this application , Mr. Julius A. Landsberger and Mr. Ambrose Gherini, representing certain purchasers of the preferred stock, protested against the granting of the application.

It appears that heretofore the applicant sold 10,000 shares of its preferred stock, of the par value of $100.oo per share, for $75.oo per share. It appears also that the remainder of the preferred stock, of the par value of $5,500,000, was issued in payment of services or property. Certain purchasers of the preferred stock have united to present their protest and their representations have been presented to the Commission by Mr. Landsgerger. However, in a brief submitted, the protestants suggest that this application, if it meets the approval of the Commission, be granted, provided that simultaneously provision be made to meet the future financial requirements of the company by the sale of stock in accordance with a plan outlined by the intervenors.

The intervenors suggest that the supplemental financial needs of the applicant be met by one of the three following plans:

> (A)-"By authorizing an issue of Prior Preferred Stock, equal in amount to all of the oustanding Preferred Stock for which cash, or its full equivalent in property, was paid into the Treasury of the Company, or to the organizers of the Company, as individuals, plus the amount of unissued Preferred Stock remaining in the Treasury of the Company. Of this Prior Preferred Stock, a sufficient amount to be exchanged share for share for the present Preferred Stock for which cash, or its full equivalent in property was paid into the Treasury of the Company, or to the organizers thereof as individuals, and the balance to be retained in the Treasury, to be sold from time to time as needed to provide for the future "Junior" financing of the Company. The "regular" Preferred Stock received in exchange as above, and that remaining in the Treasury ($3,500,000.oo) to be cancelled.

> (B)-"As an alternative method, we suggest that any of the organizers of the Corporation who received Preferred Stock, the face value of which was far in excess of the actual value of the property which they turned into the Company, make restitution by the surrender of the excess stock which they may be shown to have received, to the Treasury of the Company, thereby re-establishing the value of the Outstanding Preferred Stock and rendering the Treasury Preferred Stock salable.

> (C)-"As a third method, we suggest that those of the promoters who may have received Preferred stock of face value greatly in excess of the actual value of their properties, pay into the Treasury of the Company, in cash, an amount equal to the difference, which would accomplish the same thing (as set forth in the foregoing paragraph.)"

In the event that one of the foregoing plans is not adopted, the intervenors recommend that an assessment be levied on all of the stock.

As the result of numerous conferences between the chief stockholders and other representatives of the applicant and the committee of Preferred Stockholders, an agreement has been reached between them, the terms whereof are contained in letter dated April 24, 1915, signed by the chief stockholders of applicant and addressed to the representatives of the committee. A copy of this letter is now on file in these proceedings. The committee of Preferred Stockholders has now withdrawn its opposition to the granting of this application.

Inasmuch as the applicant has maturing on August 1, 1915, two year collateral trust notes amounting to $954,000, and in addition thereto, has a floating indebtedness of $1,178,471.03, it would appear that the financial needs of this utility are urgent.

If the plan presented in this application be executed —

The Company would realize from the present bondholders.	$ 292,400.00
From the sale of $1,532,000 face value first and Refunding Mortgage Bonds @ 95, ...	1,455,400.00
From the sale of $50,000 face value first and Refunding Morgage Bonds @ 95, ...	47,500.00
Making a Total of, ...	$1,795,300.00

After paying the 2-year collateral trust notes and applying the remainder of the funds to be obtained from the sale of its bonds to discharge floating indebtedness, applicant would have a remaining current indebtedness of only $337,171.03. This amount includes $215,254.77 represented by accounts payable.

Mr. Peat, Treasurer and Controller of San Joaquin Light and Power Corporation, thought that the earnings of the company would be sufficient to take care of this current indebtedness plus the 5% discount on the bonds and the 15% cost of additions and betterments, for which applicant cannot issue bonds under its First and Refunding mortgage and deed of trust. Even assuming that such would be the case, applicant's proposed financial plan would not comply with this Commission's views expressed in Decision No. 1525, dated May 18, 1914. In that decision, the Commission said:-

> "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 to $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."

While the Commission has no desire to delay action on this application, it does not consider the financial plan proposed by applicant in its petition herein in full accordance with its former decision. The plan proposed in this application is one to meet immediate rather than future needs, and while it calls for the issuance and sale of $50,000.00 face value of additional bonds, it involves primarily a change in the interest rate on bonds now outstanding or on bonds heretofore authorized to be issued.

The facts submitted in connection with this application do not warrant a modification of this Commission's views as expressed in Decision No. 1525, dated May, 18, 1914. I, therefore, recommend that San Joaquin Light and Power Corporation within 90 days submit to this Commission a plan for future supplemental financing.

San Joaquin Light and Power Corporation reports Assets and Liabilities as of December 31, 1914 as follows:-

Assets:

Rights and Franchises,	$13,883,222.63
Tangible Capital,	11,340,293.98
Investments,	342,912.92
Treasury Securities,	633,000.00
Cash and Deposits,	105,239.21
Notes Receivable,	297,547.34
Accounts Receivable,	674,600.04
Materials and Supplies,	346,096.76
Sinking Funds,	69,856.68
Prepaid Expenses,	4,935.65
Unamortized Discount on Stock,	1,250,000.00
Unamortized Discount on Bonds,	495,133.53
Suspense,	47,868.54
Total Assets,	$29,490,707.28

Liabilities:

Common Stock Outstanding	$11,000,000.00
Preferred Stock Outstanding	6,500,000.00
Funded Debt Outstanding	8,930,000.00
Notes Payable	971,748.38
Accounts Payable	231,881.72
Interest Accrued	131,750.04
Taxes Accrued	3,642.01
Dividends Declared	16,406.25
Service Billed in Advance	25,590.75
Reserve for Accrued Depreciation	552,402.04
Casualty and Insurance Reserve	4,076.22
Reserve Invested in Sinking Fund	342,856.68
Other Reserves from Income or Surplus	72,839.36
Capital Surplus	321,259.98
Corporate Surplus Unappropriated	386,253.85
Total Liabilities	$29,490,707.28

San Joaquin Light and Power Corporation reports earnings and expenses for the year ended December 31, 1914, as follows:-

ELECTRIC OPERATIONS:			
Operating Revenues	$1,569,282.64		
Operating Expenses	636,053.91		
Net Operating Revenue - Electric		$933,228.73	
GAS OPERATIONS:			
Operating Revenue	$ 161,430.48		
Operating Expenses	125,648.04		
Net Operating Revenue - Gas		35,782.44	
WATER OPERATIONS:			
Operating Revenue	$ 15,738.73		
Operating Expenses	10,330.62		
Net Operating Revenue - Water		5,408.11	
TOTAL NET OPERATING REVENUE			$974,419.28
OTHER INCOME:			
Interest		$ 5,561.96	
Dividends		9,533.50	
Rent		4,041.60	
Sinking Fund Accretions		2,651.45	
Miscellaneous		2,406.15	
Total			$ 24,194.66
GROSS CORPORATE INCOME			$998,613.94
DEDUCTIONS:			
Interest on Funded Debt		$403,511.09	
Interest on Other Debt		73,530.47	
Uncollectible Bills		4,868.85	
Non-Operating Revenue Deductions		686.50	
Rent		456.00	
Amortization of Debt Discount and Expenses		37,901.68	
Total Deductions			$520,954.59
SURPLUS FROM OPERATIONS FOR YEAR			$477,659.35

I recommend that this application be granted as specified in the Order and submit herewith the following form of Order:

ORDER

San Joaquin Light and Power Corporation having made application to this Commission for authority:-

(1)-To execute and issue interest coupons of 1% per annum to be attached to $2,924,000.00 face value of Series "B" 40-year First and Refunding Mortgage Gold Bonds dated August 1, 1910, provided the holders of such bonds pay into the treasury of the company the sum of $100.oo for each $1,000.oo bond held by them.

(2)-To issue $1,532,000.00 face value 6% Series "C" 40-year first and refunding mortgage gold bonds dated August 1, 1910, to replace $1,532,000.oo face value 5% Series "B" 40-year first and refunding mortgage gold bonds dated August 1, 1910;

(3)-To issue and sell additional Series "C" 6% 40-year first and refunding mortgage gold bonds of the face value of $50,000.oo;

(4)-To execute a mortgage and deed of trust to Lyman Rhodes, trustee, to secure the payment of the 1% interest coupons referred to in paragrpah numbered one of this order, a copy of which mortgage and deed of trust is attached to this application and marked Exhibit No. 2;

and a public hearing having been held and the Railroad Commission finding that the purposes for which said bonds are herein authorized to be issued are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that San Joaquin Light and Power Corporation be granted authority and it is hereby granted authority -

(1)-To execute and issue interest coupons of 1% per annum to be attached to $2,924,000.oo face value of Series "B" 40-year first and refunding mortgage gold bonds dated August 1, 1910, to such holders of such bonds as pay into the treasury of the company the sum of $100.oo for each $1,000.oo bond held by them;

(2)-To issue $1,532,000.oo face value 6% Series "C" 40-year first and refunding mortgage gold bonds dated August 1, 1910, to replace $1,532,000.oo face value 5% Series "B" 40-year first and refunding mortgage gold bonds dated August 1, 1910;

(3)-To issue and sell additional Series "C" 6% 40-year first and refunding mortgage gold bonds of the face value of $50,000.oo;

(4)-To execute a mortgage and deed of trust to Lyman Rhodes, trustee, to secure the payment of the 1% interest coupons to which reference has heretofore been made; the terms of this mortgage and deed of trust to be substantially of the form and tenor of the form of mortgage and deed of trust attached to this application and marked Exhibit No. 2.

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

(1)-San Joaquin Light and Power Corporation may increase the rate of interest from 5% to 6% on its $2,924,000 face value of Series "B" 40-year first and refunding mortgage gold bonds dated August 1, 1910, now outstanding, through the issue of one per cent.

interest coupons, but only to such holders as shall have paid on each $1,000.00 bond held by them the sum of $100.00.

(2)-San Joaquin Light and Power Corporation may issue $1,532,000 6% Series "C" 40-year first and refunding mortgage gold bonds dated August 1, 1910, to replace $1,532,000 of 5% Series "B" 40-year First and Refunding gold bonds dated August 1, 1910, now pledged as collateral or in applicant's treasury.

(3)-San Joaquin Light and Power Corporation may issue and sell additional 6% Series "C" 40-year first and refunding mortgage gold bonds dated August 1, 1910, of the face value of $50,000.00.

(4)-San Joaquin Light and Power Corporation shall sell the bonds mentioned in subdivisions 2 and 3 preceding at such price, that bonds to the face value of $300,000.00 shall yield not less than 94% of the face value plus accrued interest, and the remainder of the bonds not less than 95% of the face value plus accrued interest.

(5)-The funds to be obtained by San Joaquin Light and Power Corporation from its bondholders by virtue of an increase in the rate of interest from 5% to 6% on Series "B" 40-year first and refunding mortgage gold bonds dated August 1, 1910, plus the proceeds to be derived from the bonds herein authorized to be issued, shall be used for the following purposes:-

A.-To pay 2 year collateral trust notes Due August 1, 1915,	$954,000.00
B.-To pay outstanding notes representing funds borrowed for capital expenditures,	838,300.00

(6)-San Joaquin Light and Power Corporation shall within 90 days submit to this Commission a financial plan by means of which it proposes to secure funds to defray the cost of necessary extensions, additions and betterments from moneys other than through the sale of bonds.

(7)-San Joaquin Light and Power Corporation shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds or other evidences of indebtedness hereby authorized to be issued; and on or before the twenty-fifth day of each month the company shall make verified reports to the Commission stating the sale or sales of said bonds or other evidences of indebtedness during the preceding month, the terms and conditions of the sale, the moneys realized therefrom, and the use and application of such moneys, 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.

(8)-The authority herein granted shall apply only to such bonds, or to such other evidences of indebtedness as shall have been issued on or before April 1, 1916.

(9)-The authority herein granted is conditioned upon the payment by applicant of the fee prescribed in the Public Utilities Act.

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 3rd day of

~~April~~ May, 1915.

Max Thelen

H. D. Loveland

Frank R. Devlin

Commissioners.

Railroad Commission State of California

FEE $50.00

MAY 3 1915

BY H. G. Mathewson

Assistant Secretary.

on $50000 Bonds

FEE PAID ON ORIGINAL APPLICATION

No. 992 Decision No. 1525

Dated 18 day of May 1914

H. G. Mathewson

Assistant Secretary,

Railroad Commission State of California

for $1,532,000 Refund Bonds.

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