

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

Decision No. 2370

In the matter of the application )  
of Coast Counties Gas and Electric )  
Company, a corporation, for an )  
order to issue 1,000 shares of the )  
first preferred stock of said cor- )  
poration at 90 per cent of the par )  
value thereof, and for an order al- )  
lowing the payment of a brokerage )  
commission not to exceed 5 per cent )  
for the sale of said stock. )

Application No. 1549

H. A. Van C. Torchiana for applicant.

EDGERTON, Commissioner.

O P I N I O N

This is an application by Coast Counties Gas and Electric Company to issue 1,000 shares of first preferred stock; to sell said stock at not less than \$90 per share, and to use the proceeds for the discharge of notes payable in the sum of \$83,370.72 and to apply the balance upon additions and betterments to its property.

Coast Counties Gas and Electric Company owns and operates gas plants in Santa Cruz, Watsonville, Hollister and Gilroy, and electric light and power systems in the same territory and its environs. It also owns the capital stock of the Union Traction Company, a street railway company operating in the city of Santa Cruz.

The applicant reports an authorized capital stock of \$4,000,000, divided into 40,000 shares of the par value of \$100 per share. 10,000 shares are first preferred, 10,000 shares are original preferred, and the remaining are common stock. Of this authorized issue the applicant has outstanding 10,000 shares of

original preferred stock and 10,000 shares of common stock. There remains unissued 10,000 shares of its first preferred stock and 10,000 shares of its common stock.

The applicant reports outstanding as a direct indebtedness of Coast Counties Gas and Electric Company, its 6 per cent debentures in the sum of \$150,000. The applicant reports further the following mortgages and mortgage indebtedness of its predecessors which are present existing mortgages and present existing indebtedness against the properties of Coast Counties Gas and Electric Company:

Coast Counties Light & Power Company First Mortgage 5 per cent sinking fund, gold, dated August 1, 1906, callable at 107½, due August 1, 1946, interest February-August 1, Mercantile Trust Company, San Francisco. Sinking fund, commences June 30, 1911; 1 per cent of bonds annually, bonds to be kept alive. Trustee, Mercantile Trust Company of San Francisco.

Outstanding -----	\$ 956,000.00
Sinking Fund (alive) -----	44,000.00
Authorized -----	\$1,000,000.00

Big Creek Light & Power Company First Mortgage 4 per cent sinking fund, forty year gold, dated May 1, 1907, callable at par on any interest date. Due May 1, 1947, interest May-November 1, Mercantile Trust Company, San Francisco. Sinking fund commencing March 30, 1908, \$3600 per annum to be applied to the purchase of these bonds, which shall be kept alive. Trustee, Mercantile Trust Company San Francisco.

Outstanding -----	\$ 312,000.00
Held by Sinking Fund (alive) -----	27,000.00
Authorized -----	\$ 339,000.00

San Benito Light & Power Company First Mortgage 6 per cent sinking fund gold, dated September 1, 1910, callable at 110 and interest, due September 1, 1950, interest March-September 1, Anglo California Trust Company San Francisco. Sinking fund commences June 30, 1915, 1 per cent annually of bonds, outstanding bonds to be kept alive. Trustee, Anglo California Trust Company, San Francisco.

Outstanding -----	\$ 150,000.00
In Treasury -----	50,000.00
Authorized -----	\$ 200,000.00

The Union Traction Company, which is controlled through stock ownership by the applicant, has a mortgage indebtedness of \$650,000.

The applicant also reports an outstanding issue of promissory notes amounting to \$83,370.72.

For the calendar year ending December 31, 1914, Coast Counties Gas and Electric Company reported the following earnings and expenses:

Earnings

Electric Revenue-----	\$ 248,706.61	
Gas Revenue-----	96,776.59	
Miscellaneous Revenue -----	<u>4,310.80</u>	
		\$ 349,794.00

Expenses

Electric Production Operation--	72,300.66	
Electric Transmission Operation--	2,534.64	
Electric Distribution Operation--	9,272.09	
Electric Production Repairs ----	2,499.56	
Electric Transmission Repairs---	4,390.93	
Electric Distribution Repairs---	9,817.42	
Electric Commercial Expense ----	10,543.10	
General and Miscellaneous -----	1,896.34	
Gas Production Operation -----	33,678.71	
Gas Distribution Operation -----	5,042.80	
Gas Production Repairs -----	3,256.92	
Gas Distribution Repairs -----	2,005.11	
Gas Commercial Expense -----	9,156.00	
Gas General Expense -----	<u>897.88</u>	
	167,302.16	
Less Joint Operating Expense ---	<u>14,760.04</u>	
	152,542.12	
General office salaries and expenses including insurance and damages -----	16,525.54	
Taxes -----	<u>18,092.18</u>	<u>187,159.84</u>
		162,634.16
Interest on Funded Debt -----	75,925.12	
Other Interest -----	<u>6,054.70</u>	<u>81,979.82</u>
		80,654.34
Depreciation -----		<u>20,000.00</u>
		\$ 60,654.34
Surplus -----		\$ 60,654.34

For the fiscal year ending June 30, 1914, Union Traction

Company reported earnings and expenses as follows:

Operating Revenues -----	\$81,032.86	
Operating Expenses -----	53,607.31	
Net Operating Revenue -----		\$27,425.55

Deductions from Income:

Taxes -

On Real and Personal Property,	\$151.17	
On Capital Stock,	52.00	
On Earnings,	4,257.42	
Miscellaneous,	49.18	
		4,509.77

Interest-

On Funded Debt,	31,653.32	
		31,653.32

Total Deductions,		36,163.09
Net Loss,		8,737.54

Deficit for Year,		8,737.54
Surplus at Beginning of Year,		3,979.81
		4,757.73

Profit or Loss Adjustments During Year:  
Credits,

825.00

Deficit at Close of Year,		\$3,932.73
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Coast Counties Gas and Electric Company submitted the following statement of assets and liabilities as of December 31, 1914:

Capital Accounts

Dr.

Plant-----	\$2,761,624.81	
Organization -----	1,956.70	
San Francisco Office Furn. and Fixtures -----	944.85	\$2,764,526.36

Investments

Investment in Union Tract. Co.----	855,180.14	
Investment in Gilroy Appliance Co. -----	775.00	855,955.14

Sinking Funds

Sinking Funds- Coast C.L. & P. Co.--	45,196.65	
Sinking Funds- B.C.L. & P. Co.-----	29,153.32	74,349.97

Treasury Securities

Bonds in Treasury-S.B.L.&P.Co.----	50,000.00	
Six Per Cent Debentures Unissued--	150,000.00	
Stock in Treasury-Preferred -----	1,000,000.00	
Stock in Treasury- Common-----	1,000,000.00	2,200,000.00

Carried Forward ----- \$5,894,831.47

Cash

Cash in Bank ----- \$ 3,584.49  
Petty cash ----- 1,025.00 4,609.49

Accounts and Bills Receivable

Bills Receivable- Consumers ----- 13,853.63  
Accounts Receivable- Consumers ----- 54,130.56  
Accounts Receivable-S.C.B.Co.----- 7,825.97  
Bills Receivable- S.C.B. Co.----- 795.45 76,605.61

Material and Supplies

Material and Supplies ----- 24,489.33  
Union Traction Co----- 9,704.11

Deferred Expense

Prepaid Insurance ----- 859.86  
Suspense Expense ----- 940.53  
Deferred Interest ----- 1,228.44  
Deferred Legal Expense ----- 691.75

Deferred Charges Inter-Division

Deferred Charges Inter-Division ----- 7,118.75

Reserves

Reserve for bad and doubtful Accounts ----- 989.22  
Unamortized Discount on Securities and Expense----- 10,427.31

\$6,032,495.87

Capital Stock

Capital Stock-Preferred ----- \$2,000,000.00  
Capital Stock- Common ----- 2,000,000.00 \$4,000,000.00

Bonds

Bonds-Coast Co's L. & P.Co.----- 1,000,000.00  
Bonds-B.C.L. & P.Co. ----- 339,000.00  
Bonds-S.B.L. & P.Co. ----- 200,000.00 1,539,000.00

Debentures

Six Per Cent Debentures ----- 300,000.00 300,000.00

Accrued Bonds and Debenture Interest

Accrued Bond Interest, C.C.L. & P.Co. 20,833.32  
Accrued Bond Interest, B.C.L. & P.Co. 2,260.00  
Accrued Bond Interest, S.B.L. & P.Co. 3,000.00  
Accrued Debenture Interest ----- 4,500.00 30,593.32

Carried Forward -----		\$5,869,593.32
<u>Accrued General Interest</u>		
Accrued General Interest -----		231.90
Prepaid Taxes -----		527.47
<u>Bills Payable</u>		
Bills Payable -----		66,604.16
<u>Deposits</u>		
Meter Deposits -----	\$ 2,840.20	
Line Deposits -----	<u>2,790.50</u>	5,630.70
<u>Sundry Creditors</u>		
Accounts Payable -----		26,185.66
<u>Unpaid Drafts</u>		
Unpaid Pay Roll -----		6,242.34
<u>Reserves</u>		
Casualty and Insurance Reserve -----		3,635.51
Accrued Depreciation Reserve -----		20,580.00
SURPLUS -----		<u>33,264.81</u>
		\$6,032,495.87

Union Traction Company reported the following statement of assets and liabilities of June 30, 1914:

ASSETS

Cost of Equipment -----	\$1,398,275.15
Funded Debt in Treasury -----	100,000.00
Cash and Current Assets -----	646.20
Sinking and Other Special Funds -----	19,000.00
Deficit -----	<u>3,932.73</u>
Total -----	\$1,521,854.08

LIABILITIES

Capital Stock, Common -----	\$ 750,000.00
Funded Debt -----	750,000.00
Current Liabilities -----	8,704.92
Accrued Liabilities Not Yet Due -----	<u>13,149.16</u>
Total -----	\$1,521,854.08

The Commission has heretofore passed upon the affairs of this applicant and has considered the value of its properties.

In Decision No. 1124 upon Application No. 750, rendered December 13, 1913, the estimate of the reproduction cost of the properties at that time was given as \$2,265,297 and the depreciated reproduction cost at \$1,971,353.41. This did not include certain properties and was confined to the physical assets of this corporation.

This appraisal included an estimate of \$1,675,832 as the reproduction cost of the properties held directly by the Coast Counties Gas and Electric Company excluding therefore, the street railway properties.

The depreciated reproduction cost was tentatively figured at \$1,341,465. This item was increased by approximately \$142,000 of liquid assets. Since that time the company has added a substantial amount of property to its plant. I am, therefore, of the opinion that the facts available before this Commission as to value are sufficient at this time to justify the issue of first preferred stock herein requested without a more detailed inventory.

In January, 1915, the applicant amended its articles of incorporation so as to provide for the first preferred stock which it now desires to issue. The classes of applicant's stock are described as follows in its amended articles of incorporation:

"The amount of the capital stock of said corporation is and shall be four million (\$4,000,000) dollars and the number of shares into which said capital stock is and shall be divided is forty thousand (40,000) shares of the par value of one hundred (\$100) dollars each. Ten thousand (10,000) of said shares are and shall be first preferred stock; ten thousand (10,000) of said shares are and shall be original preferred stock; and the remaining twenty thousand (20,000) shares are and shall be common stock.

"Shares of such first preferred stock and original preferred stock, the subscription price of which shall not have been fully paid, shall be subject to assessment or calls only for the balance of the subscription price thereof. No share of such first preferred stock or original preferred stock, the subscription price of which shall have been fully paid, shall be subject to assessment for the purpose of paying the

expenses, conducting the business or paying the debts of said corporation, or for any other purpose whatsoever.

"The owners and holders of shares of said first preferred stock, when issued as fully paid, are and shall be entitled to receive from the surplus profits arising from the business of this corporation, when and as declared by its Board of Directors, cumulative preferential dividends at the rate of six (6) per cent per annum, and no more, upon the par value thereof; and such dividends shall be declared and shall be either paid or set apart for payment from the date of the original issue of such shares of first preferred stock before any dividends upon said original preferred stock or said common stock shall be either declared or paid.

"Upon the liquidation or dissolution of this corporation at any time and in any manner, the owners and holders of fully paid shares of said first preferred stock will be entitled to receive, out of the surplus profits derived from the business of this corporation then remaining undistributed, an amount equal to dividends upon the shares of such first preferred stock held by them, at the rate aforesaid, from the date of the original issue of such shares, less the amount of such dividends as shall theretofore have been paid thereon, or so much thereof as the surplus profits so remaining shall be sufficient to pay, and also out of any of the assets of this corporation, an amount equal to the par value of such shares before any amount shall be paid to the holders of said original preferred stock or said common stock.

"If any share or shares of first preferred stock shall at any time be issued as only partly paid, the owners and holders of such partly paid share or shares shall have the right to receive dividends and to share in the assets of this corporation, upon its liquidation or dissolution in all respects like the owners and holders of fully paid shares of first preferred stock, except that such right shall be only in proportion to the amount paid on account of the subscription price for which said partly paid share or shares shall have been issued.

"When all accrued dividends at the rate aforesaid upon all of the issued and outstanding shares of said first preferred stock of this corporation shall have been declared and shall have been either paid or set apart for payment, but not before, the owners and holders of shares of said original preferred stock (all of which has heretofore been issued as fully paid) shall be entitled to receive, out of the remaining surplus profits arising from the business of this corporation when and as declared by its Board of Directors, cumulative preferential dividends at the rate of six per cent per annum, and no more, upon the par value thereof; and such dividends shall be declared and shall be paid or set apart for payment from the date of the original issue of such original preferred shares before any dividend on said common stock shall be declared or paid.

"Upon the liquidation or dissolution of this corporation at any time or in any manner, after the owners and holders of such first preferred stock shall have been paid the full amount to which they shall have been entitled under the provisions of these articles of incorporation, the owners and holders of shares of said original preferred stock will be entitled to receive out of the residue of the surplus profits derived from the business of this corporation then remaining undistributed, an amount equal to dividends upon the shares of original preferred stock held by them, at the rate aforesaid, from the date of the original issue of such shares



less the amount of such dividends as shall theretofore have been paid thereon, or so much thereof as the surplus profits so remaining shall be sufficient to pay and also out of the residue of the assets of this corporation an amount equal to the face or par value of such shares before any amount shall be paid to the holders of said common stock.

"The common stock of this corporation shall be subject to assessment as provided in the Civil Code of California after as well as before the same shall have been fully paid. When all accrued dividends at the rate aforesaid upon all of the issued and outstanding shares of the first preferred stock and also upon all of the issued and outstanding shares of the original preferred stock of this corporation shall have been paid or set apart, for payment, but not before, dividends may be declared and paid out of the surplus profits arising from the business of this corporation, upon all of the issued and outstanding shares of said common stock; and upon the liquidation or dissolution of said corporation, after the owners of such first preferred stock and original preferred stock have been paid the full amount to which they shall be entitled under the foregoing provisions of these articles of incorporation, the owners of such common stock shall be entitled to receive and to have paid to them the entire residue of the assets of said corporation in proportion to the number of shares of such common stock held by them respectively.

"Any and all of the shares of first preferred stock may be called for payment and redemption by this corporation at its option, at any time on the payment to the owner and holder thereof of the par value thereof plus any accrued dividends.

"If at any time, whether by virtue of any amendments of these articles of incorporation or any amendment or change of the law of the State of California relating to corporation or otherwise, any assessment shall, in any event whatever, be levied and collected on any subscribed and issued shares of said first preferred stock after the subscription price thereof shall have been paid in full, the rights of the owners and holders thereof to receive dividends and their rights to share in the assets upon the liquidation or dissolution of this corporation shall, immediately upon the payment of such assessment and by virtue thereof, be increased in the same ratio as the total amount of the assessment or assessments so levied and collected shall bear to the par value of such shares of first preferred stock.

"No assessment levied or calls made on partly paid first preferred stock, or original preferred stock or upon common stock of this corporation shall be recoverable by action or be enforceable otherwise than by sale of delinquent stock as provided in Sections 331 and 348 of the Civil Code of California.

"Every certificate of stock issued by said corporation shall show what proportion of the subscription price of the stock represented thereby has actually been paid, and shall contain a statement to the effect that no assessment levied thereon shall ever be recoverable by action or enforceable otherwise than by sale of delinquent stock as provided by Sections 331 and 348 of the Civil Code of California.

"The Board of Directors of this corporation shall, notwithstanding the foregoing provisions of these articles of incorporation, have authority from time to time to set aside out of the profits arising from the business of

this corporation such reasonable sums as may in their judgment be necessary and proper for working capital and for usual reserves and surplus."

The applicant amended its articles of incorporation in order to provide for an issue of \$1,000,000 of its first preferred stock. The purpose is to provide a means of supplemental financing so that this applicant may go forward through the issue hereafter, if need be, of bonds and first preferred stock. This Commission has heretofore expressed its approval of this general plan of financing and it is my opinion that this applicant should be commended for the steps which it has taken at this time to strengthen its general financial condition.

The applicant proposes to sell its first preferred stock at \$90 per share and asks authority, if need be, to pay a commission of \$5 per share. If the stock is sold at \$90 per share and thereafter draws dividends at 6 per cent as is proposed, this money will cost the company  $6.66\frac{2}{3}$  per cent. If the stock is sold at \$85 per share, the cost to the company would figure 7.05 per cent.

This applicant has heretofore been able to finance itself along conservative lines and at rates of interest well below the average. It would appear also in this instance that it proposes to sell its preferred stock on a better basis than has obtained during the present period for many companies of larger size.

In order that this applicant shall have the latitude desired in this matter, I recommend that it be authorized to sell its stock so as to net the company not less than 85 per cent of the par value, with the understanding, of course, that the company will, if possible, obtain the full 90 per cent.

The applicant has filed as Exhibit 1, a list of the notes which it proposes to discharge from the proceeds of the stock which it

proposes to sell. These notes, according to the evidence submitted by the applicant, were given in payment for additions and betterments to the applicant's property or for funds which were used to acquire such additions and betterments.

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

### O R D E R

Coast Counties Gas and Electric Company having applied to this Commission for authority to issue 1,000 shares of its first preferred capital stock as set forth in the foregoing opinion,

And a hearing having been held and it appearing that the purposes for which it is proposed to issue such stock are not chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Coast Counties Gas and Electric Company be granted authority and it is hereby granted authority to issue 1,000 shares of its first preferred stock and to sell the same at not less than 85 per cent of par value.

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

1. The moneys derived from the sale of the stock herein authorized to be issued, shall be applied toward the payment of applicant's notes payable as filed with this Commission as Exhibit 1 in this application, and such moneys as may be otherwise available after the payment of said notes shall be used for additions and betterments to applicant's properties.

2. Coast Counties Gas and Electric Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the stock hereby authorized to be issued, and on or before the 25th day of each month the company shall make verified reports to the Commission

stating the sale or sales of said stock 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.

3. The authority herein granted shall apply to such stock as shall have been issued on or before June 30, 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 10<sup>th</sup> day of May, 1915.

*Max Shelton*  
*H. J. ...*  
*W. G. ...*  
*Edwin O. Edgerton*

Commissioners.