

ORIGINAL

Decision No. 2592

Decision No. _____

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 The Southern Sierras Power Company)
 for an order authorizing it to execute)
 a first and refunding mortgage, and for) Application No. 1436
 an order authorizing the issue and sale)
 of first and refunding mortgage bonds.)

Charles F. Potter for applicant.
 Albert Lee Stephens, W. B. Mathews,
 Howard Robertson and Wm. B. Himrod
 for the City of Los Angeles.

EDGERTON, Commissioner.

O P I N I O N

This is an application by The Southern Sierras Power Company for authority to execute a mortgage of its properties, and for authority to issue \$4,146,000 of bonds.

This application was consolidated with Application No. 1391 for hearing. In Application No. 1391 The Southern Sierras Power Company petitioned for authority to issue \$300,000 of its first mortgage 6 per cent 25-year bonds. On February 27, 1915, this Commission issued its Order (Decision No. 2175) upon Application No. 1391. Thereafter, on March 19, 1915, this Commission issued a Supplemental Order (Decision No. 2244) upon Application No. 1391, authorizing The Southern Sierras Power Company to issue \$300,000 of bonds as requested.

Reference is hereby made to the Orders of this Commission upon Application No. 1391 for a detailed description of the properties of The Southern Sierras Power Company, its assets and liabilities and earnings.

In the application under consideration herein, No. 1456, The Southern Sierras Power Company requests the approval of this Commission of its proposed first and refunding mortgage to Los Angeles Trust and Savings Bank and The International Trust Company of Denver, trustees. This mortgage is dated January 1, 1915, and a copy has been filed in connection with these proceedings and marked Exhibit "B".

This mortgage is of the so-called "open end" type. No fixed limit is placed upon the amount of bonds which may be issued under this indenture. The bonds are to be designated "first and refunding 6 per cent gold bonds." They will run for a period of 50 years, maturing January 1, 1965. It is proposed that they shall be issued in denominations of \$1,000, \$5,000 and \$10,000, or such multiples thereof as the Board of Directors of the applicant may direct.

The first lot of bonds are to be known as Series "A", and the total of this series shall not exceed \$5,000,000. The bonds will be callable at 103. A sinking fund is provided to begin in 1920 and to consist annually of $\frac{3}{4}$ of one per cent of the aggregate par value of all bonds outstanding; the sinking fund to be payable out of the net earnings of the corporation.

The Series "A" bonds are to be appropriated for the following purposes:

1. To refund the company's first mortgage 6 per cent 25-year gold bonds.
2. To refund bonds of Lytle Creek Power Company.
3. To discharge outstanding indebtedness.
4. To reimburse the company for money expended from income.
5. To acquire property and to provide for additions and betterments, etc.

It is provided in the indenture that after a complete appraisalment of the properties of The Southern Sierras Power Company, bonds to the aggregate par value of 85 per cent of said appraisalment may be issued, and that the balance may be issued from time to time as prescribed in the mortgage.

In case of default in the payment of principal or interest, the trustee is required to take action upon the request of the holders of one-third of the bonds, and upon the request of the holders of a majority of the bonds in case of any other default. In any foreclosure proceeding, the holders of a majority of the bonds shall control.

In the application as originally presented to this Commission, it was proposed to sell the bonds herein requested to be issued at 90 per cent of their face value and use the proceeds for the following purposes:

\$2,700,000	of bonds to retire \$2,500,000 of outstanding bonds of applicant.
524,000	of bonds to retire \$500,000 of bonds of applicant which it proposed to issue under Application 1391.
78,800	of bonds to retire \$70,000 of bonds of the Lytle Creek Power Company.
1,045,200	of bonds to be used for the purpose of retiring and paying off obligations of The Southern Sierras Power Company to system corporations, banks, etc.
<hr/>	
\$4,146,000	- Total

The applicant later modified the form of its application, requesting authority to exchange its new first and refunding bonds par for par for the \$2,500,000 of bonds outstanding, and for the \$500,000 of bonds which it proposed to issue in Application No. 1391 and for the \$70,000 of bonds of the Lytle Creek Power Company.

Subsequently the applicant submitted a further modification of its application, asking that it be granted authority to

issue bonds equal in amount to 85 per cent of the cash cost of its properties. At the same time it revised its own figures of the cash cost of these properties by subtracting certain items to which attention was directed in the Orders of this Commission upon Application No. 1391. Accordingly the applicant submitted as the cash cost of these properties a figure which it asserts corresponds with the cash cost as heretofore determined by the auditors of this Commission. The applicant

gives this figure as - - - - - \$4,190,389.24

To this the applicant adds an item for cash disbursed for development account and preliminary exploration

in the sum of - - - - - 124,590.18

making a total of - - - - - \$4,314,979.42

The applicant asserts that this is the cash cost of its properties up to November 30, 1914.

While the auditors of this Commission, in Application No. 1391, made certain reports upon the cash investment in these properties, there has been no final finding by this Commission as to the original cost of these properties.

However, if we assume the applicant's figure of \$4,314,979.42 to be correct, the present request for authority to issue bonds equal to 85 per cent of this amount would call for an authorization to issue \$3,667,732.51 of bonds.

We may, therefore, summarize the application as amended, as follows:

To issue \$3,667,732.51 of bonds and to use the proceeds as follows:

\$2,500,000 of bonds to be used to retire a like amount of applicant's outstanding bonds - - - - - \$2,500,000.00

\$300,000 of bonds to be used to retire bonds authorized in this Commission's Order upon Application No. 1391 - - - - - 300,000.00

\$70,000 of bonds to retire a like amount of bonds of Byle Creek Company - - - - - 70,000.00

Total Refunding - - - - - \$2,870,000.00

\$797,732.51 of bonds to be sold at 90 per cent of face value for the purpose of paying a portion of applicant's indebtedness to system corporations, to banks, etc. - - - - - 797,732.51

Grand Total - - - - - \$3,667,732.51

The applicant has listed its indebtedness to The Nevada California Power Company at \$995,584.01. This corporation is controlled by the same interests which control the applicant, and the sum represents moneys advanced to The Southern Sierras Power Company to assist it in constructing its electric plant.

The Southern Sierras Power Company owns water rights and hydro-electric plants on Bishop Creek, Inyo County, a steam plant in San Bernardino, and serves portions of Inyo, Kern, San Bernardino and Riverside Counties with electric energy. Applicant has filed a revised statement of its earnings and expenses for the calendar years 1913 and 1914, and an estimate for the year 1915. These statements are as follows:

	<u>1913</u>	<u>1914</u>	<u>1915*</u>
Operating Revenues	\$ 285,389.82	\$ 461,612.54	\$ 578,203.82
Operating Expenses	207,722.42	189,540.71	173,515.31
Deductions from Income	853.48	14,509.08	3,287.73
Net Operating Revenues	76,813.92	257,662.55	-----
Non-operating Revenues	3,830.30	4,039.88	1,046.15
Total net Revenues	80,644.22	261,702.43	402,646.93
Interest, etc.	151,383.32	189,592.98	224,212.74
Adjustments	-----	-----	202.80
Net Profit	-70,759.10#	72,309.45	178,576.99

* Last seven months estimated.
Deficit.

The applicant points out that under this showing there will be available net earnings equal to nearly twice the total interest charges the company will be required to pay if bonds are authorized as herein requested. The company states that total interest charges, all kinds, for the year 1915, will amount to approximately \$224,000, with over \$400,000 to meet such charges. This is a noteworthy showing for a corporation organized so recently as 1911, and operating with long transmission lines in a field that requires development.

However, this showing of earnings requires a certain degree of explanation as it is in part due to a favorable system of contracts with The Nevada California Power Company, heretofore referred to as a corporation owned by interests practically identical with those which control the applicant. The Nevada California Power Company operates chiefly in Nevada; has a large established business and has undertaken to assist the applicant to reach a stage of financial stability. At present the bonds of The Southern Sierras Power Company are guaranteed by The Nevada California Power Company.

The relationship between the two companies, in so far as it would affect the borrowing capacity and the earnings of the applicant, may be summarized under four contracts.

1. The guarantee contract, under the terms of which The Nevada California Power Company guarantees the payment, both as to interest and principal, of the bonds of The Southern Sierras Power Company.

2. The "operating" contract. Under the terms of this contract The Nevada California Power Company furnishes electric energy to The Southern Sierras Power Company, and payment is made therefor by The Southern Sierras Power Company on the following basis:

From the gross earnings of The Southern Sierras Power Company from the sale to the public of electric energy for light, heat and power purposes there is deducted-

a- The operating expenses of The Southern Sierras Power Company, including taxes and the operating cost incurred at all generating plants belonging to either of the parties for the generation of electric energy transmitted and sold to customers of The Southern Sierras Power Company.

b- All interest charges of The Southern Sierras Power Company, including bond interest and interest on its floating indebtedness.

c- An allowance for depreciation to be estimated by a designated engineer.

The balance is then divided on the basis of the amount of power used as follows:

If the amount of energy taken by The Southern Sierras Power Company shall not exceed 5500 kilowatt continuous service, 40 per cent of the surplus revenue, after the payment of the items designated above under Sections a, b and c, shall go to The Nevada California Power Company, and 60 per cent to The Southern Sierras Power Company; when the amount of electric energy taken by The Southern Sierras Power Company shall be between 5500 and 7000 kilowatt continuous service, 50 per cent of the surplus shall go to each company; and when the amount of power taken by The Southern Sierras Power Company shall exceed 7000 kilowatts, the surplus shall be divided upon the basis of 60 per cent to The Nevada California Power Company, and 40 per cent to The Southern Sierras Power Company.

This contract calls for a total supply of electric energy not to exceed 10,000 kilowatts. The contract is dated September 1, 1911, and has a life of 25 years.

3. The power plant contract. This contract provides that the power plants, known as plants No. 5 and No. 6, of The Southern Sierras Power Company, located on Bishop Creek, shall be operated by The Nevada California Power Company. Additional agreements in regard to these plants provide that The Nevada California Power Company shall figure the gross revenue applicable to these plants by taking the amount of kilowatt hours produced at the average price received by The Nevada California Power Company for its electric energy in the State of Nevada; that it shall deduct therefrom the cost of operating and maintaining said plants, and that the net sum then remaining on this basis shall be divided, 60 per cent thereof to The Nevada California

Power Company and 40 per cent to The Southern Sierras Power Company.

This contract is dated January 1, 1913 and runs for a period of 5 years, but may be terminated upon 60 days' notice by either party.

4. The San Bernardino steam plant contract. This agreement provides that The Nevada California Power Company shall pay such proportion of the total expense of maintaining and operating the steam plant of The Southern Sierras Power Company at San Bernardino, as the hydro-electric development on Bishop Creek owned by The Nevada California Power Company shall bear to the total hydro-electric development of both The Nevada California Power Company and The Southern Sierras Power Company on Bishop Creek. It is further provided that such expense shall include depreciation and 7 per cent interest on the reproduction value of the San Bernardino steam plant, but not the operating expense in excess of the cost of keeping the "steam plant floating on the line."

For the purposes of this contract the reproduction value of the San Bernardino steam plant has been figured at \$400,446, and the depreciation at \$7,854 per annum. This agreement became effective in July, 1914.

It is apparent, therefore, that these agreements have been entered into for the purpose of augmenting the net revenues of The Southern Sierras Power Company.

The applicant has submitted a statement to this Commission showing that of its gross revenue of \$285,589.82 for 1913, the sum of \$99,983.16 was derived from The Nevada Cali-

ifornia Power Company; and that of its gross earnings of \$461,612.34 in 1914, \$107,119 was derived from The Nevada California Power Company. It would appear also that The Nevada California Power Company had relieved the applicant of a portion of its operating expense.

The applicant has submitted statements showing that it received from The Nevada California Power Company as compensation in connection with its steam plant in San Bernardino, the sum of \$19,580.67 in 1913 and \$29,700.42 in 1914.

A detailed statement of the assets and liabilities of the applicant appears in this Commission's Decision No. 2175 upon Application No. 1391. As the affairs of this corporation are closely linked with those of The Nevada California Power Company, a statement of the assets and liabilities of that corporation is here given. This statement shows the company's assets and liabilities as of November 30, 1914.

THE NEVADA CALIFORNIA POWER COMPANY.

A S S E T S

		<u>As per Books</u>
Property Investments		\$8,266,856.74
Stocks & Bonds of Other Companies		326,570.62
Working Assets		
Cash	\$ 76,825.30	
Accounts Receivable	100,265.54	
Materials & Supplies	51,862.56	
Deferred Charges	<u>2,374.03</u>	
		231,325.45
Due from So. Sierras Power Co.		1,514,246.69
Due from Sierras Construction Co.		85,409.63
Due from Other System Companies		258,538.68
Capital Stock Discount		-----
		<u>\$10,682,947.79</u>

L I A B I L I T I E S

		<u>As per books</u>
Capital Stock		\$5,000,000.00
Funded Debt	\$5,000,000.00	
<u>Less</u> redeemed by sinking fund	<u>567,000.00</u>	2,633,000.00
Current Liabilities		
Notes Payable	43,428.00	
Interest Accrued	38,546.18	
Sundry Accounts	39,706.35	
Consumer's Deposits	<u>51,421.10</u>	152,901.63
Dividend Scrip Certificates		573,570.00
Surplus		
Unappropriated at Jan.1, 1914 after dividends \$826 605.	1,187,527.49	
Net Earnings 11 mos. of 1914 less Div. \$200,000.	43,518.88	
Sales of Donated Stock	263,735.89	
Sinking Fund Reserve	373,289.38	
Reserved for Depreciation	407,013.54	
Other reserves	40,693.43	
Bond Redemption Discounts	<u>7,797.55</u>	<u>2,323,476.16</u>
		<u>\$10,682,947.79</u>

The earnings of The Nevada California Power Company for the years 1912 and 1913 have been reported by the applicant as follows:

	<u>1912</u>	<u>1913</u>
Operating Revenue	\$ 874,173.15	\$ 995,834.83
Operating Expense	222,521.44	534,760.45
Net Operating Revenues	651,651.69	661,074.40
Adjustments	31,981.13	76,326.62
Gross Net Income	683,632.82	737,401.02
Interest, Depreciation and Discounts	274,848.54	362,118.33
Net Income	408,784.28	375,282.69

It is apparent in this proceeding that a large part of applicant's indebtedness to system corporations and to banks has been incurred in the construction of its facilities.

In this proceeding the City of Los Angeles intervened. Through its representatives it took the position that this Commission should not grant the application, and filed a brief in opposition. The attorneys for the City of Los Angeles stated that the public interests of the City of Los Angeles required that the application should be denied. It was specifically stated, however, by representatives of the City of Los Angeles that the water rights concerned in the present application were not contested by the City. The position of the City was rather against the general plans of this company for future development and was not directly concerned with the plans here under consideration.

The applicant has completed a certain amount of construction work. It has borrowed the money to pay for this work and now desires merely to change its form of indebtedness from notes and accounts payable to long term bonds. There is,

of course, nothing in this situation which would change the relationship between the applicant and the City of Los Angeles.

I believe that the matter as now presented by this applicant is in such form that the request here under consideration is for a reasonable amount of bonds in view of the magnitude of the project. I believe this Commission may authorize a bond issue of a total amount of \$5,668,000 upon the properties owned by The Southern Sierras Power Company in view of the showing of the actual cost of these properties, of their earning capacity and of the relationship between the applicant and The Nevada California Power Company.

In order to assure a continuance of the support heretofore given by The Nevada California Power Company, I shall recommend as a condition that The Nevada California Power Company guarantee the new issue of bonds as it has guaranteed the payment, both as to principal and interest, of the bonds heretofore issued by The Southern Sierras Power Company.

While the applicant's original request in this matter was for an issue of bonds to pay off in part the sums due system corporations, I shall make the order general in this respect, and the applicant may submit the necessary details to enable this Commission to issue a Supplemental Order, specifying in exact terms the purposes to which certain of the proceeds from the bonds should be applied.

Accordingly, I submit the following form of Order:

O R D E R

The Southern Sierras Power Company having applied to this Commission for authority to execute a mortgage and deed of trust, and for authority to issue \$5,668,000 of its first and refunding bonds under said mortgage and deed of trust as set forth in the preceding opinion, and a hearing having been held

and it appearing that the purposes for which the applicant desires to issue bonds are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that The Southern Sierras Power Company be granted authority, and it is hereby granted authority, to execute a mortgage and deed of trust to Los Angeles Trust and Savings Bank and The International Trust Company of Denver, trustees, said mortgage and deed of trust to be dated January 1, 1915, and to secure the issue of first and refunding 6 per cent gold bonds as therein provided, said mortgage to be substantially in the form of a copy of said mortgage and deed of trust filed in connection with this proceeding and marked Exhibit "B", to which reference is hereby made.

IT IS HEREBY FURTHER ORDERED that The Southern Sierras Power Company be granted authority, and it is hereby granted authority, to issue \$5,668,000 of its first and refunding Series "A", 6 per cent 50-year bonds under said mortgage and deed of trust, said bonds to be issued upon the following conditions and not otherwise:

1. \$2,500,000 of said bonds shall be used to pay, retire or discharge \$2,500,000 of first mortgage 25-year bonds of The Southern Sierras Power Company now outstanding upon such basis that for every \$1,000 first and refunding bond herein authorized to be issued there shall be paid or retired a \$1,000 first mortgage 25-year bond of applicant now outstanding.

2. \$300,000 of the bonds herein authorized to be issued shall be issued to pay, retire or discharge \$300,000 face value of applicant's 6 per cent 25-year bonds heretofore authorized to be issued by this Commission.

3. \$70,000 of the bonds herein authorized to be issued shall be used to pay, retire or discharge \$70,000 of bonds of the Lytle Creek Power Company, a subsidiary of ap-

plicant.

4. \$798,000 of the bonds herein authorized to be issued shall be sold so as to net the applicant not less than 90 per cent of the face value thereof plus accrued interest.

5. The proceeds derived from the sale of said \$798,000 of bonds shall be used for paying applicant's indebtedness to The Nevada California Power Company, excluding any part of such indebtedness as may heretofore have been paid through the issue of \$500,000 of applicant's first mortgage 25-year bonds authorized to be issued by this Commission in Decisions No. 2175 and No. 2244, and for paying applicant's indebtedness to banks or other corporations, but the moneys derived from the sale of said bonds shall be applied to the purposes set out in this section only after the applicant shall have filed a supplemental list with this Commission of the indebtedness which it proposes to defray from the proceeds of the \$798,000 of bonds, and this Commission shall have issued a Supplemental Order approving such disposition of the proceeds thereof.

6. The authority herein granted is conditioned upon the guarantee by The Nevada California Power Company of the payment, both as to principal and interest, of the bonds herein authorized to be issued.

7. The Southern Sierras Power Company shall keep separate, true and accurate accounts, showing the receipt and application in detail of the proceeds from the sale of the bonds herein 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 bonds during the preceding month, the terms and conditions of such sale, the moneys derived therefrom and the use and application of such moneys, all as provided in this Commission's General Order No. 24, which order,

in so far as applicable, is made a part of this order.

8. The authorization herein given to issue bonds shall apply to such bonds as shall have been issued on or before June 30, 1915.

9. This order shall not become effective until the fee prescribed in Section 57 of the Public Utilities Act, as amended, has been paid.

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 13th day of July, 1915.

State of California
Railroad Commission
File # 2184-100
JUL 16 1915
BY W. H. Mackinson
Assistant Secretary

W. H. Mackinson
Edwin O. Egerton
Frank R. Dehn
Commissioners.