

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

Decision No. 3009

In the matter of the application  
of GREAT WESTERN POWER COMPANY  
OF CALIFORNIA for permission to  
issue capital stock and debentures  
and for approval of a certain finan-  
cial plan.

Application No. 1999.

Guy C. Earl and Chaffee E. Hall for applicant.

THELEN, Commissioner.

FIRST SUPPLEMENTAL OPINION.

In the above entitled proceeding, Great Western Power Company of California has filed a supplemental application asking the Railroad Commission to make its order authorizing the expenditure by Great Western Power Company of California of the proceeds of the debentures authorized by the decision of December 20, 1915, in the above entitled proceeding, for the following purposes:

1. To purchase \$4,998,000.00, par value, of common capital stock of City Electric Company - - - - - \$3,000,000.00
2. To construct a transmission line from Big Bend to Oakland - - - - - 1,500,000.00
3. To construct a 3rd cable across the Bay of San Francisco - - - - - 150,000.00
4. To construct a 4th cable across the Bay of San Francisco - - - - - 100,000.00

A public hearing on this supplemental application was held in San Francisco on December 28, 1915.

In its decision dated December 20, 1915, in the above entitled proceeding, the Railroad Commission authorized Great Western Power Company of California to issue its 10-year 6 per cent

convertible gold debentures of the total face value of \$5,000,000.00, to be dated November 1, 1915, and payable November 1, 1925, at not less than 91 per cent of the face value thereof, plus accrued interest. The purpose of this supplemental application is to secure an order from the Railroad Commission specifying the purposes for which the proceeds from the sale of said debentures may be used.

City Electric Company was incorporated on January 14, 1907, under the laws of California. The company has an authorized issue of 50,000 shares of common capital stock of the par value of \$100.00 per share. The entire authorized capital stock is issued and outstanding. The minutes of the board of directors of City Electric Company of January 18, 1907, show that 49,910 shares of the capital stock of City Electric Company, being the entire authorized capital stock, with the exception of 90 shares, were to be issued to A. J. Hechtman in connection with a contract entered into on January 18, 1907, between City Electric Company and A. J. Hechtman. In this contract, according to the minutes, Hechtman agreed to supply and equip one generating station for City Electric Company in San Francisco and to construct five miles of distributing system in accordance with the contract specifications. Mr. Hechtman also guaranteed the sale of 500 five per cent 30-year gold bonds of the City Electric Company, each having a face value of \$1000.00, at not less than the sum of \$850.00 per bond. City Electric Company agreed to pay to Mr. Hechtman \$500,000.00 in installments, and also to issue to him said 49,910 shares of City Electric Company's capital stock. There is no evidence to show what tangible value, if any, said capital stock represented at the time of its issue.

City Electric Company has authorized an issue of first mortgage five per cent 30-year gold bonds of the total face value of \$5,000,000.00, these bonds being dated July 1, 1907, and payable on July 1, 1937. Of the bonds so authorized, City Electric Company's

annual report for the year ending December 31, 1914, on file with this Commission, shows that \$2,512,000.00, face value, were outstanding. Of the bonds thus outstanding, bonds of the face value of \$533,000.00 were pledged as collateral. Bonds of the face value of \$62,000.00 were purchased by the company and retired through its sinking fund prior to December 31, 1914.

The testimony herein shows that in 1911, Great Western Power Company purchased the capital stock of City Electric Company (except 30 shares) and that \$80.00 per share was paid by Great Western Power Company for this stock. The purchase was effected through the instrumentality of a syndicate. As part of this transaction, Great Western Power Company delivered to Western Power Company (of New Jersey), the holding company, bonds of Great Western Power Company of the face value of \$3,000,000.00, common capital stock of Great Western Power Company of the par value of \$2,500,000.00 and \$150,000.00, or thereabouts, in cash. Great Western Power Company also guaranteed the payment of dividends on \$1,000,000.00, par value, of preferred stock of California Electric Generating Company, a subsidiary corporation. Western Power Company (of New Jersey) <sup>delivered</sup> then, ~~made~~ to the Syndicate Managers the \$3,000,000.00, face value, of bonds of Great Western Power Company and the \$1,000,000.00, par value, of preferred stock of California Electric Generating Company, and also common stock of Western Power Company (of New Jersey) of the par value of \$2,670,000.00. The Syndicate Managers, on their part, agreed to pay for said securities an amount equivalent to \$80.00 per share of the common capital stock of City Electric Company, except the 30 shares which were not acquired, together with interest on deferred payments.

The following table shows the comparative income and profit and loss account of City Electric Company for the years ending December 31, 1910, 1911, 1912, 1913 and 1914, as reported to the Railroad Commission by City Electric Company:

COMPARATIVE INCOME AND PROFIT AND LOSS STATEMENT OF CITY ELECTRIC COMPANY

FOR YEARS ENDING DECEMBER 31, 1910; 1911; 1912; 1913 and 1914.

<u>I T E M</u>	<u>1 9 1 0</u>	<u>1 9 1 1</u>	<u>1 9 1 2</u>	<u>1 9 1 3</u>	<u>1 9 1 4</u>
<u>INCOME STATEMENT:</u>					
Operating Revenue	\$ 917,766.17	\$ 932,259.23	\$ 974,571.61	\$ 1,018,981.27	\$ 1,074,080.50
Operating Expenses	518,050.24	552,770.32	578,040.67(2)	596,555.59 (2)	796,842.24 (2)
Net Operating Revenue	399,715.93	379,488.91	401,530.94	422,425.68	277,238.26
Other Income	4,490.61	266.33(4)	6,092.89	49,003.55	53,072.15
Gross Corporate	404,206.54	379,755.24	407,623.83	471,429.23	330,310.41
<u>DEDUCTIONS:</u>					
Bond Interest	85,000.00	85,000.00	86,583.07	99,218.05	100,214.16
Other Interest	--	--	3,219.82	36,795.83	36,000.00
Liability Reserve	10,000.00	--	--	--	--
Rent	--	--	--	3,212.40	3,041.66
Insurance	10,000.00	--	--	--	--
Sinking Fund	--	--	12,870.00	--	--
Bad Debts	3,407.91	4,658.13	--	2,493.78	2,649.46
Amortization of Debt Discount, etc.	10,262.87	10,262.87	--	--	2,086.71
Total Deductions	118,670.78	99,922.00	102,672.89	141,720.06	143,991.99
<u>TO PROFIT AND LOSS</u>	<u>285,535.76</u>	<u>279,295.58</u>	<u>304,950.94</u>	<u>329,709.17</u>	<u>186,318.42</u>
<u>PROFIT AND LOSS STATEMENT</u>					
Surplus Beginning Of Year	\$ 246,116.66	\$ 366,645.82	\$ 611,716.88(1)	\$ 860,892.34	\$ 724,530.62
Add Income for Year	285,535.76	279,295.58	304,950.94	329,709.17	186,318.42
Miscellaneous	--	--	7,885.32	10,248.82	448,336.44
TOTAL	531,652.42	645,941.40	924,553.14	1,200,850.33	1,359,185.48
<u>DEDUCTIONS:</u>					
Dividends	185,000.00	90,000.00	--	--	--
Sinking Funds	--	--	--	25,585.00	25,275.00
Miscellaneous	--	--	63,660.80	8,886.31	43,293.09
Appropriation to Reserve	--	--	--	441,848.40 (3)	--
Total Deductions	185,000.00	90,000.00	63,660.80	476,319.71	68,568.09
<u>SURPLUS CLOSE OF YEAR</u>	<u>346,652.42</u>	<u>555,941.40</u>	<u>860,892.34</u>	<u>724,530.62</u>	<u>1,290,617.39</u>

(1).- Balance sheet shows surplus of \$555,941.40

(2).- Does not include depreciation.

(3).- This amount set up on books of company to show amount of surplus invested in fixed capital.  
Entry reversed in 1914.

(4).- Loss

Attention should be drawn to the fact that while the operating revenue for 1914, being \$1,074,080.50, is only \$55,099.23 in excess of the operating revenue for 1913, the operating expenses for 1914, being \$796,842.24, are \$200,486.65<sup>in</sup> excess of the operating expenses for 1913, which were reported to be \$596,555.59. In explanation of this very large increase in operating expenses, at a time during which there was a much smaller increase in operating revenue, the representatives of applicant herein stated at the hearing that the increase was due to the purchase by City Electric Company of the major portion of its electric energy in the year 1914 from Great Western Power Company at the price of one cent per K.W.H., in accordance with contract dated February 28, 1912, between Great Western Power Company, City Electric Company, Mortimer Fleishhacker, Herbert Fleishhacker and California Electric Generating Company. Applicant explains that City Electric Company can produce electric energy in its own steam generating plant in San Francisco at a cost considerably less than the price paid to Great Western Power Company, but that the matter is in reality a family affair and that the cost to Great Western Power Company of electric energy delivered to City Electric Company is somewhat less than the cost to City Electric Company of generating electric energy in its steam plant in San Francisco. The net result of this arrangement is, of course, to increase the operating expenses of City Electric Company over what they would be if the company generated electric energy in its own steam plant, to decrease the apparent net income of City Electric Company and to increase the gross revenue and the net income of Great Western Power Company.

When Great Western Power Company receives from Great Western Power Company of California, the applicant herein, the sum of \$3,000,000.00 which is to be paid by Great Western Power Company of California for said \$4,998,000.00, par value, of

capital stock of City Electric Company, said \$3,000,000.00 must, under the terms of the deed of trust or mortgage of Great Western Power Company, pass to the trustee under said deed of trust. At the request of Great Western Power Company, the trustee may permit said Great Western Power Company to use the \$3,000,000.00 to pay and retire its bonds or <sup>to</sup> pay for the cost of extensions, additions and betterments to the plant of said Great Western Power Company. Applicant herein has filed its Exhibit "D" showing in general the purposes for which Great Western Power Company desires to expend said \$3,000,000.00. Great Western Power Company desires, in general, to expend said money for the construction, <sup>of</sup> additions and extensions to its properties in this state, and there is no present desire to use said money for the purpose of retiring bonds.

In his testimony at the hearing in the original application herein, Mr. Mortimer Fleishhacker, President of Great Western Power Company of California, stated that the payment by Great Western Power Company of California of three million dollars to Great Western Power Company for said capital stock of City Electric Company is in reality merely a family transaction in furtherance of the general plan for consolidation of the properties of the Great Western Power System. He drew attention to the fact that this Commission, if it so desires, can as readily control the expenditure of the proceeds of three million dollars in the treasury of Great Western Power Company as though this money remained in the treasury of Great Western Power Company of California. No valuation of the property of City Electric Company has been filed, and I am unable to make a finding as to the value of the property of City Electric Company.

I recommend that this portion of the application be granted, on condition that the sum of three million dollars be not taken before this Commission or any other public authority as

representing for rate making, sale, issue of securities, or any other purpose, the value of the property of City Electric Company or of any equity therein, and also that Great Western Power Company of California will secure from Great Western Power Company and file herein a stipulation authorized by its directors, to the effect that it will expend said three million dollars only upon securing an order from the Railroad Commission, in the same manner as though said three million dollars had been secured by Great Western Power Company from the issue of its own securities, authorized by the Railroad Commission.

Applicant presented testimony to the effect that it is necessary for the purposes of Great Western Power System that a second transmission line be constructed from Big Bend to Oakland, at an approximate cost of \$1,500,000.00, and that a third and a fourth cable be constructed across San Francisco Bay, from Alameda County to San Francisco, at an approximate cost of \$150,000 for the third cable and \$100,000 for the fourth cable. This property is to belong to Great Western Power Company of California, the applicant herein. No definite arrangements have as yet been made for the operation of this property. No estimate of the cost of constructing said property has been filed.

I recommend that this portion of the application be also granted, on condition that applicant herein shall first file detailed estimates of the cost of said construction, whereupon the Commission will issue a supplemental order authorizing said expenditures.

I submit the following form of order:

FIRST SUPPLEMENTAL ORDER.

A public hearing having been held on the supplemental application of GREAT WESTERN POWER COMPANY OF CALIFORNIA herein, and the Railroad Commission finding that the purposes for which the proceeds from the sale of the debentures hereinbefore authorized are to be used are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Great Western Power Company of California may expend the proceeds from the sale of \$5,000,000.00, face value, of 10-year 6 per cent convertible gold debentures, dated November 1, 1915, and payable November 1, 1925, the issue of which was authorized by this Commission's decision of December 20, 1915, in the above entitled proceeding, for the following purposes and on the following conditions and not otherwise, to-wit:

1. Proceeds from the sale of said debentures not in excess of the sum of \$3,000,000.00 may be used for the purchase of \$4,998,000.00, par value, of the capital stock of City Electric Company.

2. Proceeds from the sale of said debentures not in excess of the sum of \$1,500,000.00 may be used for the construction of a second transmission line from Big Bend to Oakland.

3. Proceeds from the sale of said debentures not to exceed the sum of \$150,000.00 may be used for the construction of a third cable across San Francisco Bay, from Alameda County to San Francisco.

4. Proceeds from the sale of said debentures not to exceed the sum of \$100,000.00 may be used for the construction of a fourth cable across San Francisco Bay, from Alameda County to San Francisco.

The authority hereby granted is given only subject to the following conditions:



(1) The price at which the capital stock of City Electric Company is being purchased by Great Western Power Company of California, namely, the sum of \$3,000,000.00, shall not be used before the Railroad Commission, or any other public authority, as representing for rate making, sale, issue of securities, or any other purpose, the present value of the property of City Electric Company or of any equity therein.

(2) Great Western Power Company of California, before using any portion of the proceeds from the sale of said debentures for the purpose of purchasing capital stock of City Electric Company, shall first have secured from the Railroad Commission a supplemental order reciting that Great Western Power Company has filed with the Railroad Commission a stipulation satisfactory in form, agreeing that it will expend said \$3,000,000.00 to be received from the sale of said capital stock of City Electric Company, only after having secured from the Railroad Commission an order or orders authorizing the expenditure of said money, in the same manner as though said \$3,000,000.00 had come to the treasury of Great Western Power Company from the issue of securities of Great Western Power Company authorized by the Railroad Commission.

(3) Great Western Power Company of California shall not expend any portion of the proceeds from the sale of said debentures for the construction of the transmission line from Big Bend to Oakland, the third Bay cable and the fourth Bay cable until said company has filed with the Railroad Commission a detailed estimate of cost of construction and shall have received from the Railroad Commission a supplemental order authorizing the expenditure of moneys for said purposes.

All the provisions of this Commission's order of December 20, 1915, in the above entitled proceeding, except in

so far as modified by this First Supplemental Order, shall remain in full force and effect.

The foregoing First Supplemental Opinion and Order are hereby approved and ordered filed as the First Supplemental Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 29th day of December, 1915.

Max Thelen

W. H. Land

W. H. Land

Fran R. Doh

Commissioners.