

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.-----oo-----
ORIGINAL

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 financial)
 plan.)

ApplicationNo. 1999.

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

THELEN, Commissioner.

SECOND 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 the issue of which was authorized by the decision of December 20, 1915, in the above entitled proceeding, for the following purposes:

1. For the purchase from Great Western Power Company of \$4,998,000 par value of the Common Capital Stock of City Electric Company, \$3,000,000
2. For the purchase from Western Power Company, a New Jersey corporation, of a part of the following bonds at ninety (90%) per cent of the face value thereof, to-wit:
 - (a).- \$ 849,000 face amount, first mortgage five per cent. forty year sinking fund gold bonds of Great Western Power Company, \$ 764,100

(b) \$1,050,000 face amount of first mortgage
five per cent thirty year
sinking fund gold bonds of
City Electric Company, \$945,000

In its decision dated December 29, 1915, the Railroad Commission authorized applicant herein to expend the proceeds obtained from the sale of \$5,000,000 face amount of 10-year 6 per cent convertible gold debentures, payable November 1, 1925, for the following purposes:

- "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."

Applicant by the decision of December 20, 1915, was authorized to sell its 10 year 6% convertible gold debentures at not less than 91 per cent of the face value thereof, plus accrued interest.

In the supplemental application now before the Railroad Commission, applicant asks that it be permitted to apply to the acquisition of said bonds of Great Western Power Company and City Electric Company that portion of the proceeds obtained from the sale of its debentures, which it has heretofore been authorized to use for the purpose of paying for the proposed transmission line from Big Bend to Oakland and the third and fourth bay cables. Mr. Mortimer Fleishhacker, President of Great Western Power Company of California, testified that the proposed construction program had not been abandoned, but that part of the \$3,000,000.00 to be paid for

the City Electric Company stock will be used to pay for the cost of the aforementioned extensions and improvements.

As stated in Decision No. 3009, dated December 29, 1915, the stock of City Electric Company is owned by Great Western Power Company. The \$3,000,000.00 to be paid therefor, 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 to pay or retire its bonds or to pay for the cost of extensions, additions and betterments to the plant of Great Western Power Company. Applicant now desires to use part of the \$3,000,000.00 to pay for the cost of constructing a second transmission line from Big Bend to Oakland, and a third and a fourth cable across San Francisco Bay, from Alameda County to San Francisco. These extensions would thus become the property of Great Western Power Company and not the property of Great Western Power Company of California as heretofore contemplated.

Assuming that Great Western Power Company of California will be able to sell its \$5,000,000.00 face value of 10 year 6 per cent. convertible debentures at 91, it will realize from the sale thereof the sum of \$4,550,000. Deducting the \$3,000,000 to be paid for stock of City Electric Company, leaves a balance of \$1,550,000 to be applied to acquire \$849,000.00 face value of bonds of Great Western Power Company and \$1,050,000.00 face value of bonds of City Electric Company. These bonds are to be acquired at 90, which would call for a total expenditure of \$1,709,100. Assuming that all the bonds are purchased, the sum of \$159,100 will have to be obtained from sources other than the sale of debentures. Counsel for applicant stated that the \$159,100.00 may be obtained from the sale of a part of \$660,000.00 par value of preferred stock of California Electric Generating Company now owned by Western Power Company, in which event, ^{thus purchased} the bonds would become the property of Western Power Company.

By Decision No. 495, dated January 11, 1913 (Vol. 2, Opinions and Orders of the Railroad Commission of California, page 276), the Railroad Commission authorized Great Western Power Company to issue \$4,411,000 face value of forty year 6 per cent. bonds, payable July 1, 1946, at not less than 90 per cent. of the face value and accrued interest. This is the minimum price at which said bonds may be sold under the terms of the mortgage or deed of trust. At the time of the decision, bonds of the Great Western Power Company were selling several points below the minimum price fixed by the mortgage or deed of trust.

Unable to market its bonds, Great Western Power Company called upon Western Power Company, the holding company, to aid it in financing its construction. Western Power Company agreed to purchase \$849,000.00 face value of bonds at the minimum price fixed by the Commission. It is these bonds, together with \$1,050,000 face value of City Electric Company bonds, which Great Western Power Company of California now desires to acquire from Western Power Company at 90 per cent of the face value.

The evidence shows that Western Power Company will use the proceeds obtained from the sale of the bonds ^{in part} to pay its \$1,000,000.00 face value of 2 year 6 per cent. gold notes due March 1, 1917.

Under the terms of the "Purchase Agreement", dated November 3, 1915, and attached to the application herein as "Exhibit C", Western Power Company is obligated to purchase from E.H. Rollins & Sons and W.P. Bonbright and Co. \$800,000.00 face value of City Electric Company bonds at 90 per cent. of the face value and accrued interest. Great Western Power Company of California proposes to purchase \$800,000.00 of bonds from Western Power Company at the same price at which

Western Power Company acquires them.

In the final analysis, applicant herein proposes to refund \$849,000.00 face value of Great Western Power Company bonds and \$1,050,000 face value of City Electric Company bonds.

Subject to the conditions found in the order, I recommend that the third supplemental application herein be granted.

I submit the following form of order:

THIRD SUPPLEMENTAL ORDER.

A public hearing having been held on the third supplemental application of GREAT WESTERN POWER COMPANY OF CALIFORNIA herein, and the Railroad Commission find^{ing} 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.- The remaining proceeds from the sale of said debentures may be used to purchase from Western Power

Company at not more than 90 per cent of the face value thereof:

(a).- First Mortgage five per cent forty year sinking fund gold bonds of Great Western Power Company in the principal sum of, \$ 849,000.00

(b).- First Mortgage five per cent thirty year sinking fund gold bonds of City Electric Company in the principal sum of, 1,050,000.00

The authority herein 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, and the price at which Great Western Power Company of California is herein authorized to purchase bonds of Great Western Power Company and City Electric Company, 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 Great Western Power 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 se-

cured 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.

IT IS HEREBY FURTHER ORDERED that the first supplemental order found in Decision Number 3009, dated December 29, 1915, in the above entitled proceeding be and the same is hereby vacated and set aside.

IT IS HEREBY FURTHER ORDERED that all the provisions of this Commission's order found in Decision Number 2985, dated December 20, 1915, in the above entitled proceeding, except in so far as modified by the second supplemental order dated January 3, 1916, and this third supplemental order, shall remain in full force and effect.

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

Dated at San Francisco, California, this 15th day of January, 1916.

Max Thelen
W. H. Leland
John G. Leland
Frank R. Leland

Commissioners.