

ORIGINAL

Decision No. 3489

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of)
SAN JOAQUIN LIGHT AND POWER CORPORA-)
TION for an order authorizing the) Application No. 2354.
issue of first and refunding mortgage)
gold bonds.)

W. A. Sutherland for San Joaquin Light and Power Corporation.

Julius A. Landsberger and Ambrose Gherini for certain stockholders.

THELLEN, Commissioner.

O P I N I O N.

This is an application by San Joaquin Light and Power Corporation for an order authorizing the issue of first and refunding mortgage Series "C" six per cent bonds, of the face value of one million dollars, for the purposes hereinafter specified.

A public hearing in this proceeding was held in San Francisco on June 21, 1916. It was stipulated at the hearing that such documents as San Joaquin Light and Power Corporation might file herein subsequent to the hearing might be considered in evidence and be given appropriate exhibit numbers. Subsequent to the hearing, San Joaquin Light and Power Corporation filed the following documents, which have been given exhibit numbers as follows:

Applicant's Exhibit No. 4 - Current Assets and Liabilities.

Applicant's Exhibit No. 5 - Capital Expenditures authorized May 1st to 21st, 1916.

Applicant's Exhibit No. 6 - Distribution Line estimates, December 1915 to April 1916, inclusive.

Applicant's Exhibit No. 7 - Letter from W. A. Sutherland, dated June 24, 1916, with enclosures relating to Current Liabilities.

Applicant's Exhibit No. 8 - Letter from G. R. Kenny, dated June 28, 1916, enclosing Balance Sheet, May 31, 1916, and summary of bond statement, May 31, 1916.

Applicant's Exhibit No. 9 - Letter from G. R. Kenny,
dated June 29, 1916, enclosing detail of expendi-
tures of \$68,000.00 heretofore incurred.

The financial condition of San Joaquin Light and Power Corporation was reviewed by the Railroad Commission in Decision No. 3241, rendered on April 6, 1916, in the so-called San Joaquin Light and Power Corporation cases, to which decision reference is hereby made.

San Joaquin Light and Power Corporation has authorized an issue of capital stock of the par value of twenty-five million dollars, consisting of common capital stock of the par value of fifteen million dollars and preferred capital stock of the par value of ten million dollars. Of the capital stock thus authorized, there is outstanding common capital stock of the par value of eleven million dollars and preferred capital stock of the par value of six million five hundred thousand dollars.

The following table shows a summary of bond statement of San Joaquin Light and Power Corporation on May 31, 1916, as shown by applicant's Exhibit No. 8:

BOND STATEMENT - SAN JOAQUIN LIGHT AND POWER CORPORATIONAND SUBSIDIARY CORPORATIONS - MAY 31, 1916.

	BONDS ALIVE IN SINKING FUND		Certified Unsold	Exchanged	With Public	Total outstanding per Balance Sheet
	Other Companies	Own				
San Joaquin Light & Power Corporation						
Series "A" 6's		17000.00	*13000.00		1470000.00	1500000.00
" "B" 5's					1141000.00	1141000.00
" "C" 6's					1668000.00	1668000.00
" "B" 6's					1782000.00	1783000.00
San Joaquin Power Company						
1st Mtg. 5's			*3000.00		92000.00	95000.00
San Joaquin Light & Power Co.						
1st Mtg. 5's		31000.00	*18000.00		2588000.00	2637000.00
Power Transit & Light Co.						
1st Mtg. 5's		49000.00		633000.00	96000.00	778000.00
Bakersfield Gas & Elec. Lt. Co.						
1st Mtg. 6's					12000.00	12000.00
Bakersfield & Kern Elec. Ry. Co.						
1st Mtg. 5's	27000.00	33000.00	*16000.00	2000.00	47000.00	125000.00
	27000.00	130000.00	60000.00	635000.00	8897000.00	9729000.00

* Bonds repurchased and owned by the Corporation.

The following table shows the balance sheet of San Joaquin Light and Power Corporation as of May 31, 1916, as shown by applicant's Exhibit No. 8:

Table No. II.

BALANCE SHEET - SAN JOAQUIN LIGHT AND POWER CORPORATION

246

AND SUBSIDIARY CORPORATIONS - MAY 31, 1916.

ASSETS		LIABILITIES	
<u>CAPITAL ASSETS</u>		<u>CAPITAL LIABILITIES</u>	
Rights and Franchises	14086556.87	Stock	
Organization Expense	24382.52	Preferred	
Plant	12361132.52	6% Cumulative (10000000.00 Authorized)	6500000.00
Sinking Fund	<u>162667.05</u>	Common	(15000000.00 ") <u>11000000.00</u>
TOTAL CAPITAL ASSETS	26634738.96	Bonds	<u>17500000.00</u>
TREASURY SECURITIES	766531.53	TOTAL CAPITAL LIABILITIES	27289000.00
<u>CURRENT ASSETS</u>		<u>CURRENT LIABILITIES</u>	
Cash	168516.74	Accruals	
Notes Receivable	323492.37	Taxes and License	1494.85
Accounts Receivable	365293.57	Bond Interest	120599.17
Material and Supplies	<u>313982.24</u>	Interest on Funded Debt	8449.17
TOTAL CURRENT ASSETS	1171284.92	Sinking Fund	87169.08
DEFERRED CHARGES		Deposits	21772.27
Prepaid Taxes and Insurance		Prepayments	39266.95
Bond Discount and Expense	381229.37	Notes Payable	18451.19
Stock Discount	1250000.00	Accounts Payable	102408.44
Prepayments	<u>1337.44</u>	Unaudited Invoices Payable	112786.60
TOTAL DEFERRED CHARGES	1632566.81	Pay Roll	24058.18
SUSPENSE		TOTAL CURRENT LIABILITIES	<u>39287.04</u>
Unaudited Undistributed Invoices Payable	24058.18	SURPLUS AND RESERVES	
Miscellaneous Undistributed Disbursements - Replacements	129919.57	Reserves	1291735.66
	<u>14071.24</u>	Capital Surplus	373917.50
TOTAL SUSPENSE	168048.99	Surplus close of Year	705919.19
TOTAL ASSETS	<u>30373171.21</u>	" Current Year to Date	<u>208608.19</u>
		TOTAL SURPLUS AND RESERVES	<u>2580180.54</u>
		TOTAL LIABILITIES	<u>30373171.21</u>

It will be noted from Table No. II that San Joaquin Light and Power Corporation shows current assets amounting to \$1,171,284.92 and current liabilities amounting to \$553,990.67.

The following table shows the valuation of the entire property of San Joaquin Light and Power Corporation used and useful in its various public utility services, as of January 1, 1916; as shown in applicant's Exhibit No. 2:

Table No. III.

VALUATION - SAN JOAQUIN LIGHT AND POWER CORPORATION -
January 1, 1916.

Electric Department (R.R.C) less transformers to be purchased and construction capital.....	\$9,647,240.00	
Bakersfield Gas (R.R.C.) valuation of 1914 plus approximate additions and betterments.....	325,000.00	
Selma Gas (J. G. White)	\$64,304.00	
Merced " (" " ")	73,844.00	
Madera Water " ")	58,567.00	
Selma "(" ")	<u>66,910.00</u>	
	\$263,625.00	
Less 10%	<u>26,362.00</u>	
	\$237,263.00	237,263.00
Bakersfield and Kern Railway revaluation using Commission's rate of overhead.....		638,964.00
Supplies and working capital (basis of two months' operating expense) Railway, Gas and Water departments	<u>50,236.00</u>	
		\$10,898,703.00

The first item in the foregoing table purports to show the fair value of the property of San Joaquin Light and Power Corporation used and useful in its electric business, as derived from this Commission's said Decision No. 3241. This figure assumes an allowance for transformers to be purchased by San Joaquin Light and Power Corporation amounting to \$232,000.00. In said Decision No. 3241, the Railroad Commission made an allowance for this item of \$264,485.00. Consequently, the first item should be \$9,614,755.00. The Railroad Commission has not as yet passed upon the other valuations shown in the preceding table, with the exception of the valuation of the Bakersfield gas property in 1914.

San Joaquin Light and Power Corporation now seeks authority to issue its first and refunding mortgage Series "C" six per cent gold bonds, as follows:

a. To reimburse the corporation's treasury for sums heretofore expended for additions and betterments- \$68,000.00

b. For expenditures hereafter to be made for additions and betterments - \$1,299,000.00.

San Joaquin Light and Power Corporation asks authority to issue said bonds to the extent of 85 per cent of the cost of said additions and betterments, as provided by its deed of trust or mortgage.

The details of the item of \$68,000.00, being moneys heretofore expended for additions and betterments, are shown in applicant's Exhibit No. 9. The authority to issue bonds in connection with this item will be granted, with the exception of a total of \$10,569.50 in connection with the Merced Falls Power House, with reference to the propriety of which item there is not at present sufficient evidence before the Railroad Commission.

The purposes for which San Joaquin Light and Power Corporation desires to make expenditures for additions and betterments in 1916 and 1917 are set forth in applicant's Exhibit No. 2.

The expenditures to be made in 1916 are as follows:

Table No. IV.

EXPENDITURES TO BE MADE BY SAN JOAQUIN LIGHT AND
POWER CORPORATION IN 1916.

Consumers' transformers to be purchased.....\$232,000.00

Production capital

Merced Falls Plant (Completed)	\$ 35,000.00	
New Pipe Line P.H. #1	4,000.00	
Betteravia Capital Addition	50,000.00	
Power House #2	<u>87,000.00</u>	\$176,000.00
Transmission Betteravia Line.....		13,567.00

Substations

Raymond, Ora Loma, Coarse Gold	35,000.00	
Fresno transformers	14,500.00	
Spare transformers	7,000.00	
Corcoran and Stoil District	<u>10,000.00</u>	66,500.00

Distribution Lines

Three times amount authorized to March 31, 1916.....	<u>\$342,000.00</u>	
		\$830,067.00

The expenditures to be made in 1916 and 1917 are as follows:

Table No. V.

EXPENDITURES TO BE MADE IN 1916 and 1917.

Production

Complete #2 Power House	\$177,000.	
Canyon Power House (Capital Addition)	<u>150,000.</u>	
		\$327,000.00

Transmission

Loop on North End. Change 30 K.V. to 60 K.V.	101,000.	
Bullard Sayres Corner Line	36,360.	
Change #3 - #1 Line 30 K.V. to 60 K.V.	7,533.	
Tie line across loop	<u>100,000.</u>	
		\$244,893.00

Distribution and Substations

For 1917 add same amount as in 1916.....	<u>\$384,500.00</u>
	\$956,393.00

Testimony was given at the hearing in behalf of San Joaquin Light and Power Corporation that it is desired to provide now only for the corporation's immediate needs. In view of this statement and also of the fact that a portion of the funds hereafter to be expended by the corporation will be provided by a plan of junior financing on which the corporation is now working; in accordance with suggestions heretofore made by the Railroad Commission, the authority herein given to issue bonds in connection with moneys hereafter to be expended for additions and betterments will be limited to such additions and betterments as petitioner expects to make during the calendar year 1916, without prejudice to consideration hereafter in subsequent proceedings of the expenditures referred to in Table No. V.

The authority desired by San Joaquin Light and Power Corporation in connection with the items shown in Table No. IV

may be granted with the following exceptions. Two items, being estimate No. 1557, stubbing poles on Hanford line, \$1,176.12, and estimate No. 1630, resetting poles on west 60 K.V. line, \$3,622.00, should properly be charged to operating expenses and should not be capitalized. The item of \$35,000.00 for the Merced Falls Plant will be held in abeyance for the reason hereinbefore indicated. The item of \$50,000.00 in connection with the proposed steam plant at Betteravia and \$13,567.00 for the transmission line in connection with said steam plant, both items referring to the business of Midland Counties Public Service Corporation, will be held in abeyance for the reason that the evidence now before the Railroad Commission is not sufficient to justify the Commission in drawing the conclusion that these expenditures should now be made by San Joaquin Light and Power Corporation instead of by Midland Counties Public Service Corporation. There is no question concerning the desirability of the Betteravia construction. The only question is as to which corporation should bear the burden, and on what terms, which question the Railroad Commission will be ready to take up with the parties at any time. The total of the items thus excluded or held in abeyance is \$103,365.12. The balance of \$726,701.88 remaining of the items shown in Table No. IV will be allowed.

Table No. IV includes an item of \$232,000.00 to cover the cost of transformers to be purchased by San Joaquin Light and Power Corporation from its consumers, as directed by the Railroad Commission in said Decision No. 3241. San Joaquin Light and Power Corporation has heretofore undertaken to pay for said transformers by a credit of ten per cent of the consumers' monthly bills. The consumers, however, prefer to have San Joaquin Light and Power Corporation purchase the transformers outright, and the corporation desires to be in a position to do so. Some dispute having

arisen between the corporation and its consumers with reference to the price to be paid for the transformers, the Railroad Commission recommends that the corporation pay for them outright, the sum to be paid in each instance being the price which San Joaquin Light and Power Corporation would be compelled to pay for the transformer at the present time, new, less depreciation at the rate of five per cent per annum.

The deed of trust or mortgage of San Joaquin Light and Power Corporation to The Trust Company of America, Trustee, dated August 1, 1910, and securing the corporation's first and refunding mortgage bonds, provides in part that bonds may be authenticated and delivered by the Trustee from time to time, to the extent of 85 per cent of the cost of making additions to and extensions, improvements and betterments of the property of San Joaquin Light and Power Corporation or any of its subsidiary companies. The deed of trust also provides that the net income of the corporation for the period of twelve months before the first day of the then current month must have been at least twice the sum of the interest upon all the bonds which shall then be outstanding, plus the bonds which it is proposed to issue. San Joaquin Light and Power Corporation reports in applicant's Exhibit No. 2 that the bonds outstanding with the public on June 13, 1916, amounted to \$8,910,000, that the corporation's earnings applicable to bond interest during the year ending March 31, 1916, were \$1,128,045.66 and that twice the interest charges on the outstanding bonds were \$978,000.00. This leaves a margin of \$150,045.66, which is considerably more than sufficient to justify the issue of the bonds herein authorized, under the terms specified in the deed of trust or mortgage.

On May 1, 1916, the new rates prescribed by the Railroad Commission in said Decision No. 3241, applying to the entire electric business of San Joaquin Light and Power Corporation, became effective. The Railroad Commission effected substantial reduc-

tions in certain of these rates, particularly the rates for residence and commercial lighting and for agricultural power service. The Railroad Commission has consistently been of the opinion that the normal growth of the electric business of San Joaquin Light and Power Corporation, plus the large amount of additional business which will undoubtedly come to the corporation as the result of the reduced rates established, would undoubtedly give to San Joaquin Light and Power Corporation an absolutely fair return on the fair value of its property.

Mr. A. C. Balch, Vice President of San Joaquin Light and Power Corporation, when asked by counsel for applicant at the hearing to give his views with reference to the effect of the rates established by the Railroad Commission, testified as follows:

"A Well, the impression I had in the first place was that there would be a reduction, and that the new business would catch up and make the income of the company higher than before.

"Q And you still have that idea?

"A And I still have that idea, in view of these statements I have it stronger than ever."

The figures presented at the hearing bearing on this question consist in part of a statement of electric earnings for the months of May, 1915 and May, 1916, and in part of evidence of new business already secured or in the process of being secured.

The following table shows the gross electric earnings of San Joaquin Light and Power Corporation for the months of May, 1915 and May 1916:

Table No. VI.

ELECTRIC EARNINGS - SAN JOAQUIN LIGHT AND POWER CORPORATION -

May 1915 and May 1916.

	<u>May 1915</u>	<u>May 1916</u>
Light Earnings	\$50,570.61	\$45,854.86
General Power Earnings	63,076.14	77,452.80
Fresno Traction Co.	2,454.05	2,776.95
Midland Counties Public Service Corporation	3,535.53	4,136.81
Hanford	2,030.80	1,781.44
Fresno Valley Ice	1,857.60	2,652.00
Bakersfield and Kern Elec. Ry.	542.54	676.10
Tulare Co..Power Co.	4,956.18	
Fresno City Water Co.	<u>3,703.00</u>	<u>7,194.10</u>
	\$132,726.25	\$142,525.06

* April Earnings billed in
May - Bakersfield

6,158.63

\$136,366.43

* Bakersfield District - Flat rate consumer billing changed
from 1st day of following month to last day of current
month.

Amount billed May 1st.

\$ 6,158.63

Many bills to be rebated when choice of rate is made by consumer.

It will be observed from the foregoing table that the gross ~~xxxxxxx~~ earnings from the electric business during the month of May, 1916, after the rates established by the Railroad Commission became effective, were in excess of the gross earnings during the same month in the preceding year. Evidence was presented in behalf of San Joaquin Light and Power Corporation to

the effect that certain adjustments, particularly in agricultural power bills, would have to be made by reason of the possibility of securing lower rates under alternative schedules.

Mr. E. B. Walthall, applicant's assistant general manager, testified that reports from the district agents indicated that between 3000 and 4000 H.P. of additional business was already in sight and that there will be a considerable development throughout the entire territory.

Applicant's Exhibit No. 6 shows that by an estimated expenditure of \$127,314.52 to take on additional business which has already been secured, San Joaquin Light and Power Corporation expects to secure an additional gross annual revenue of \$42,513.00. As the ^{included} estimates/in the total expenditures of \$127,314.52 include only estimates authorized to April 1, 1916, and as San Joaquin Light and Power Corporation estimates that the cost of additional distribution lines under estimates to be authorized during 1916 subsequent to March 31st, will be three times the amount authorized prior to March 31st, it would seem to be a reasonable assumption that the increase in the gross revenue from the additional new business to be secured subsequent to March 31, 1916, during the remaining portion of the year, will be at least \$120,000.00.

Confidence on the part of bond buyers in the financial condition of San Joaquin Light and Power Corporation is shown by the fact that the bonds for which authority is herein asked are to be sold for from 96 to 97 per cent of their face value. The highest price ever realized by San Joaquin Light and Power Corporation for its bonds has been 95 per cent.

Subsequent to the submission of this proceeding, the Railroad Commission is in receipt of a letter dated June 30, 1916, from petitioner, suggesting that by reason of bright prospects for new business, it will be necessary for San Joaquin Light ~~and~~

and Power Corporation to expend considerable sums for additions and betterments up to July 1, 1917, in addition to the amounts set forth in Table No. IV herein; showing additional expenditures to be made during the year 1916.

The intention of the order herein is to authorize the issue of bonds against such capital additions as may reasonably be anticipated for the calendar year 1916. If, during the progress of the year, it becomes evident that additional expenditures must be made, the Railroad Commission will give prompt consideration to a supplemental petition herein on behalf of San Joaquin Light and Power Corporation.

I recommend that this application be granted to the extent indicated in the order and submit the following form of order:

O R D E R.

SAN JOAQUIN LIGHT AND POWER CORPORATION having applied to the Railroad Commission for an order authorizing the issue of first and refunding mortgage Series "C" six per cent bonds, said bonds to be payable on August 1, 1950, and to bear interest at the rate of six per cent per annum, payable semi-annually, and a public hearing having been held, and the Railroad Commission finding that the purposes for which the proceeds of the bonds herein authorized to be issued are to be used 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 and the same is hereby authorized to issue its first and refunding mortgage Series "C" six per cent gold bonds, secured by deed of trust or mortgage dated August 1, 1910, to The Trust Company of America, Trustee, of the face value of \$666,500.00, on the following conditions and not otherwise, to-wit:

1. San Joaquin Light and Power Corporation shall sell said bonds so as to net not less than ninety-six per cent of their face value and accrued interest.

2. San Joaquin Light and Power Corporation shall use the proceeds from said bonds for the following purposes and not otherwise:

(a) To reimburse the treasury of San Joaquin Light and Power Corporation for expenditures heretofore incurred for additions and betterments, the items being set forth in applicant's Exhibit No.9 herein, not to exceed \$48,800.00.

(b) The construction of additions and betterments to be made for the items set forth in Table No.IV in the opinion which precedes this order, with the exception of the items for Merced Falls Plant and Betteravia Steam Plant and Transmission Line and the two items of Operating Expenses referred to in the opinion herein, not to exceed \$617,700.00.

3. 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 hereby authorized to be issued, and on or before the 25th day of each month the corporation shall make a verified report to the Railroad Commission, stating the sale or sales of said bonds during the previous 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.

4. The authority hereby given to issue bonds shall not become effective until San Joaquin Light and Power Corporation has paid the fee specified in the Public Utilities Act.

5. The authority hereby given to issue bonds shall apply only to such bonds as shall have been issued on or before July 1, 1917.

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 7th day of July, 1916.

Fee \$657.00
JUL 13 1916
Charles R. Smith

Max Thelen
A. D. Loveland
Geo. G. Ford
Edwin O. Edgerton
Frank D. Olin
Commissioners.