

Decision No. \_\_\_\_\_

**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF  
THE STATE OF CALIFORNIA

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In the Matter of the Application of  
WESTERN STATES GAS AND ELECTRIC COMPANY,  
a corporation, for an order authorizing  
the creation of a 10-year 6 per cent note  
indebtedness, the securing of the same  
by trust indenture and the issuance of  
said notes of the par value of \$1,564,000.

Application  
No. 2711

Allen L. Chickering, of Chickering &  
Gregory, for Applicant.

BY THE COMMISSION.

O P I N I O N

This is an application by Western States Gas and Electric Company for authority to execute a trust agreement to Guaranty Trust Company of New York covering the issue of \$5,000,000 face value of 10-year 6 per cent gold notes, and for authority to issue \$1,564,000 of said notes at not less than 92 per cent of their face value.

A public hearing was held in San Francisco, January 30, 1917, before Examiner Bancroft.

The net yield to applicant from the sale of \$1,564,000 face value of notes at 92 per cent would be

\$1,438,880. Applicant hopes to be able to realize slightly more than 92 per cent upon said notes and it desires to use the proceeds thereof as follows:

To pay principal of its 3-year notes falling due October 1, 1917 .....	\$621,500.00
Premium for retiring said notes before maturity .....	3,107.50
To refund 15 short term notes set forth in "Exhibit No. 1", an- nexed to the application .....	206,000.00
To pay amount due Standard Gas and Electric Company .....	93,601.36
For purchase price and improvements to property of Placerville Gold Mining Co. ....	215,000.00
To pay for estimated improvements to system to be made during the year ending November 30, 1917 ....	<u>300,000.00</u>
Total .....	\$1 439,208.86

The \$621,500 of 3-year 6 per cent notes were issued under authority of this Commission. The agreement under which they were issued provides that after October 1, 1916 the notes may be redeemed at 100½ per cent. These notes have, by virtue of this agreement, been called for redemption on April 1, 1917. Of these notes \$280,000 issued November, 1914, at 92½ per cent will have cost the company with the redemption premium the equivalent of 9.5 per cent interest per annum; \$308,500 issued from December, 1914 to May, 1915, at an average selling price of 93.15, will have cost the equivalent of 10 per cent, while the remaining \$33,000 of said notes, issued in April, 1916, at 94.75 per cent, will have cost the company the equivalent of 11.8

per cent, making the average cost to the company for the money obtained upon this entire issue 9.81 per cent per annum, in addition to the expenses connected with the issue of the notes.

Of the \$206,000 of short term notes above referred to, over half have been paid since the filing of the application in the above entitled matter. New short term notes have been issued, however, for the purchase of, and improvements to, the property formerly belonging to Placerville Gold Mining Company, and to pay a portion of the amount due Standard Gas & Electric Company. As a result, applicant's short term notes now outstanding total \$405,000.00, all of which applicant desires to discharge out of the proposed note issue. Applicant also desires to reimburse its treasury for its payment of the aforementioned short term notes and for its payments on account of the amount formerly due Standard Gas & Electric Company.

As to the proposed application of \$3,107.50 to retiring the \$621,500 of 3-year notes, such an expenditure obviously should not be charged to capital account, and we cannot authorize the use of any portion of the proposed note issue for that purpose.

The proposed trust agreement which applicant desires to execute to Guaranty Trust Company of New York, covering the issue of the \$5,000,000 face value of 6 per cent notes, above referred to, provides among other matters that the notes shall be dated February 1, 1917, and shall mature February 1, 1927.

the issue to be represented by coupon notes of denominations of \$100, \$500 and \$1000, and registered notes of denominations of \$1000 or multiples thereof, interest to be payable semi-annually on August 1 and February 1; \$1,564,000 face value to be issued in the immediate future, and \$3,436,000 to be issued thereafter provided that the earnings of the company, after deducting operating expenses and interest on bonded indebtedness, is equal to three times the interest on the outstanding 10-year 6 per cent notes, plus the interest on ~~xxx~~ notes to be issued, plus interest on floating indebtedness; the notes to be redeemable prior to February 1, 1921 at 102; between February 1, 1921 and February 1, 1925, at 101; and after February 1, 1925 at par, the holders of a majority in amount of bonds outstanding to control the procedure in case of default.

This agreement constitutes no lien upon the property of the Company. Section 5 of Article 3 of the agreement provides that Western States Gas and Electric Company will not place an additional mortgage or other encumbrance upon any of its property, real, personal or mixed, unless and until it shall by mortgage or deed of trust secure the carrying out of the agreement and the payment of the principal and interest of the notes issued thereunder, equally and ratably with the bonds, notes or other obligations secured by such additional mortgage or deed of trust. It is further provided that nothing in this section shall be construed to prevent the company from (1) acquiring properties subject to a lien, provided that the fair and reason-

able value of property is in excess of the lien, or  
(2) issuing or renewing additional underlying bonds, ~~or~~  
or (3) giving pledges and securities for temporary  
loans in the usual course of business.

The section further provides that "in case  
of a breach of this covenant, in addition to any other  
penalty herein provided for such breach, the company  
hereby creates a lien and charge in favor of every  
note issued hereunder equal to the lien in favor of  
any other bonds, notes or other obligations secured  
by any mortgage or pledge not herein permitted. To  
make this covenant and penalty fully effectual, the  
company hereby includes under, and secures by any  
mortgage, pledge or deed of trust hereafter made or  
executed by the company, not herein permitted, any and all  
notes issued hereunder then or at any time thereafter out-  
standing, with the same force and effect as though each  
and every <sup>such</sup> note was specifically named and included in  
any such future mortgage, pledge or deed of trust,  
equally and ratably with any bonds, notes or other  
obligations, issued and secured by such future mort-  
gage, pledge or deed of trust".

Section 7 of Article 3 provides that the  
company will not sell or lease its plant until the pur-  
chaser or lessee assumes the payments of the notes issued  
under the agreement.

The agreement does not provide for a sinking fund nor does it obligate applicant to retire any of the notes before their maturity.

Applicant has reported its revenues and expenses for the calendar years 1913 to 1916 inclusive, as follows:

Item	1916	1915	1914	1913
Electric Department:				
Operating Revenues	\$ 984,299.53	\$945,100.44	\$897,323.04	\$880,652.77
Operating Expenses	509,702.48	500,054.74	490,250.16	493,142.29
Net Operating Rev.	\$ 474,597.05	\$445,045.70	\$407,072.88	\$387,510.48
Gas Department:				
Operating Revenues	\$ 255,038.15	\$238,733.59	\$220,544.17	\$204,994.45
Operating Expenses	122,359.31	111,413.75	103,788.70	103,740.64
Net Operating Rev.	\$ 132,678.84	\$127,319.84	\$116,755.47	\$101,253.81
Total Net Operating Rev.	\$ 607,275.89	\$572,365.54	\$523,828.35	\$488,764.29
Deductions:				
Interest Accrued on Funded Debt	\$ 285,239.09	\$276,877.90	\$238,303.74	\$211,627.90
Other Interest	7,013.55	3,706.86	37,296.37	47,521.66
Uncollectible Bills	5,537.87			
Amortization of Debt				
Discount and Exp.	12,465.86	6,690.35	3,925.70	
Total Deductions	\$ 310,256.37	\$287,275.11	\$279,525.81	\$259,149.56
Balance Carried to Corporate Surplus Acc.	\$ 297,019.52	\$285,090.43	\$244,302.54	\$229,614.73

The operating expenses as shown in the above statement do not include any allowances for depreciation. The amount of depreciation annually charged by applicant on account of depreciation, as well as the dividends paid, are shown by the following table:

Item	1916	1915	1914	1913
Surplus beginning of Year	\$144,739.89	\$127,309.10	\$106,473.56	\$114,917.25
Additions for Year:-				
Profit for Year from income account	297,019.52	285,090.43	244,302.54	229,614.73
Miscellaneous Additions to surplus	<u>3,150.00</u>	<u>1,385.66</u>		
Total Surplus Plus Additions	\$444,909.41	\$413,785.19	\$350,776.10	\$344,531.98
Deductions for Year:-				
Depreciation	\$ 60,000.00	\$ 90,000.00	\$ 60,000.00	\$ 60,000.00
Dividends paid	223,478.41	179,045.30	148,750.00	148,750.00
Other Deductions	<u>21,825.60</u>		<u>14,717.00</u>	<u>29,308.42</u>
Total Deductions	\$305,304.01	\$269,045.30	\$223,467.00	\$238,058.42
Surplus End of Year	\$139,605.40	\$144,739.89	\$127,309.10	\$106,473.56

Applicant reports its assets and liabilities to this Commission, as of December 31, 1916, as follows:

ASSETS

Fixed Capital and Franchise:

Plant and Franchise Account .....	\$ 7,916,433.46
Electric Department .....	2,091,836.45
Gas Department .....	774,092.04
General .....	<u>97,494.00</u>

Total Investment ..... \$10,879,855.95

Treasury Securities .....	22,000.00
Sinking Fund Investments .....	179,785.99
Other Investment .....	41,097.34
Cash and Deposits .....	56,407.94
Notes Receivable .....	4,171.06
Accounts Receivable .....	143,878.15
Materials and Supplies .....	79,480.15
Prepayments .....	5,274.02
Unamortized bond discount .....	565,298.29
Unamortized 3 yr. note discount .....	41,561.16
Leased signs and motors .....	7,289.15
Other suspense .....	<u>37,835.07</u>

Total Assets ..... \$12,063,934.27

### LIABILITIES

Capital Stock .....	\$ 5,356,500.00
Funded Debt .....	5,682,000.00
Notes payable .....	450,000.00
Accounts payable .....	91,736.31
Accrued Interest not Due .....	28,316.25
Taxes Accrued .....	40,335.30
Dividends Declared .....	37,187.50
Reserve for Accrued Depreciation .....	237,782.13
Reserve for Bad Debts .....	471.38
Corporate Surplus Unappropriated .....	<u>139,605.40</u>
Total Liabilities	\$12,063,934.27

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The question was raised at the hearing as to the disposition of the unamortized discount on the \$621,500 of notes due October 1, 1917. It appears that this item as of December 31, 1916, is \$41,561.16. Applicant proposed at the hearing to write this amount off over a period of the life of its first and refunding bonds, a period of approximately 24 years. The Commission objected to this plan and applicant has since consented to write this item off during the current year. The order hereinafter made is made upon the express understanding by the Commission that applicant will write off this entire amount on or before December 31, 1917.

In view of the fact that this applicant has been paying unusually high rates for short term money and has made provision for a large flotation of debentures, it would appear to be essential that it take steps to enlarge its reserves. This is particularly apparent in the face of the necessity of amortizing \$41,561.16 during 1917.

The new construction expenditures which applicant proposes to incur during the twelve months ending November 30, 1917, are as follows:



STOCKTON DIVISION:  
Gas Department.

Plant including new Gas Well	\$ 35,550.00	
Distribution .....	59,000.00	
Miscellaneous .....	2,500.00	\$ 97,050.00

Electric Department.

Plant .....	\$ 14,500.00	
Transmission .....	13,500.00	
Distribution .....	93,500.00	
Miscellaneous .....	5,000.00	126,500.00

RICHMOND DIVISION:  
Electric Department.

Plant and Transmission .....	\$ 1,500.00	
Distribution .....	23,500.00	
Miscellaneous .....	1,000.00	26,000.00

EUREKA DIVISION:  
Gas Department.

Plant .....	\$ 250.00	
Distribution .....	1,500.00	1,750.00

Electric Department.

Plant .....	\$ 35,300.00	
Transmission .....	54,700.00	
Distribution .....	26,500.00	<u>116,500.00</u>
Total .....		\$367,800.00

If the notes herein authorized are sold by applicant at 92 per cent of their face value, the money derived therefrom will cost applicant approximately 7-1/8 per cent per annum, while if they are sold so as to net applicant 93 the interest charge to applicant will amount to approximately 7 per cent. We believe that under present market conditions applicant will be able to dispose of these notes for at least 93 per cent of their face value.

Under all the circumstances we are of the opinion that the application should be granted subject to the condi-

tions and modifications hereinafter set forth.

O R D E R

WESTERN STATES GAS AND ELECTRIC COMPANY having applied to the Railroad Commission for authority to create a 10-year 6 per cent note indebtedness of the face value of \$5,000,000, and to issue \$1,564,000 of notes at not less than 92 per cent of their face value, and to execute a trust agreement securing said issue, and a public hearing having been held and the Commission finding that the purposes for which said notes or the proceeds thereof are to be used are not in whole or in part reasonably chargeable to operating expenses or to income, and that for the reasons set forth in the foregoing opinion the application should be granted, subject to the conditions and modifications hereinafter set forth,

IT IS HEREBY ORDERED that Western States Gas and Electric Company be and the same is hereby authorized to execute a trust agreement to Guaranty Trust Company of New York, substantially in the words and figures set forth in the proposed trust agreement filed with this Commission on the 15th day of February, 1917, and designated as "Exhibit B", for the purpose of securing a \$5,000,000 note indebtedness of 10-year 6 per cent notes.

IT IS HEREBY FURTHER ORDERED that Western States Gas and Electric Company be and the same is hereby authorized to issue \$1,564,000 face value of said notes.

The authority herein granted to execute said trust agreement and to issue said notes is granted upon the

following conditions and not otherwise:

1. Said notes shall be sold so as to net applicant not less than 93 per cent of their face value, together with accrued interest.

2. The trust agreement herein authorized to be executed by applicant shall be substantially in the form and substance of the proposed trust agreement of applicant, a copy of which marked "Exhibit B" was filed with this Commission on February 15, 1917.

3. The proceeds of the notes herein authorized to be issued shall be applied as follows:

To pay the principal of applicant's  
3-year notes falling due October  
1st, 1917, referred to in the  
opinion preceding this order

\$621,500.00

To refunding the following short  
term notes:

<u>Payee</u>	<u>Maturity</u>	<u>Amount</u>	
Anglo&London Paris Nat.Bk.S.F.	3-21-17	\$10,000	
Anglo&London Paris Nat.Bk.S.F.	3-21-17	10,000	
Anglo&London Paris Nat.Bk.S.F.	3-21-17	10,000	
Anglo&London Paris Nat.Bk.S.F.	3-21-17	10,000	
Anglo&London Paris Nat.Bk.S.F.	3-21-17	10,000	
Anglo&London Paris Nat.Bk.S.F.	4-20-17	10,000	
Anglo&London Paris Nat.Bk.S.F.	4-20-17	15,000	
First National Bank, Stockton	5- 1-17	30,000	
Standard Gas & Electric Co.	3-19-17	50,000	
Standard Gas & Electric Co.	3-19-17	50,000	
Standard Gas & Electric Co.	3-19-17	50,000	
Standard Gas & Electric Co.	3-19-17	50,000	
Standard Gas & Electric Co.	3-19-17	50,000	
Standard Gas & Electric Co.	3-19-17	50,000	
		<u>405,000.00</u>	

To reimburse applicant's treasury,  
said sum to be expended only upon  
authority from this Commission  
under a supplemental order

112,390.00

To pay for estimated improvements to  
system to be made during the year  
ending November 30, 1917, as set  
forth in the foregoing opinion

315,640.00

Total

\$1 454,520.00

4. The authority herein granted to execute the trust agreement above referred to and to issue the notes as above mentioned shall apply only to such trust agreement as shall have been executed and to such notes as shall have been issued on or before October 1st, 1917.

5. The approval herein given of the proposed trust agreement is for the purpose of this proceeding only and an approval in so far as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of such trust agreement as to any other legal requirements to which it may be subject.

6. Western States Gas and Electric Company shall keep a true and correct account showing the receipt and application in detail of the proceeds of the sale of the notes herein authorized to be issued, and shall, on or before the 25th day of each month, make a verified report to this Commission, stating the sale or sales of said notes during the preceding month, the terms and condition 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.

7. This order shall not become effective until applicant shall have paid the fee specified in Section 57 of the Public Utilities Act.

Dated at San Francisco, California, this 16th day of March, 1917.

Max Thelen

W. J. Gordon

Frank R. Sullivan

Commissioners.