

Decision No. 4279

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ORIGINAL

DECISION No. _____

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application)
of San Joaquin Light and Power) Application No. 2838.
Corporation for an order authorizing)
the issue and sale of debentures.)

W. A. Sutherland and Murray Bourne for Applicant.

* * *

WHEELER, Commissioner.

O P I N I O N.

This is an application of San Joaquin Light and Power Corporation for authority to execute a trust agreement providing for a total of \$4,500,000.00 of debentures and to issue and sell at this time \$1,000,000.00 face value of these debentures.

The affairs of this applicant have been heretofore reviewed by this Commission and it is therefore unnecessary at this time to enter into a detailed recital of its history and operations.

In Decision No. 3241 rendered April 6, 1916 upon Application No. 1666 (Vol. 9, Opinions and Orders of the Railroad Commission of California, page 542) this Commission made its findings as to value, finances and rates of the electric properties of this applicant, and reference is made thereto. In a decision of April 25, 1914, (Vol. 4, Opinions and Orders of the Railroad Commission of California, page 843) this Commission issued its findings as to the value and rates of the gas properties of this applicant at Bakersfield and reference is hereby made thereto.

In Decision No. 1525 dated May 18, 1914 (Vol. 4, Opinions and Orders of the Railroad Commission of California, page 1036) this Commission in passing upon a request of this applicant for authority to issue bonds, said at page 1043:-

"* * * * San Joaquin Light and Power Corporation will soon present to this Commission a plan for refinancing the company in such a way as to establish a more normal relationship between the value of the property and the face value of its stock and bonds; and also for securing funds for necessary additional capital expenditures from sources other than bonds."

In Decision No. 2335, dated May 3, 1915 (Vol. 6, Opinions and Orders of the Railroad Commission of California, page 733) the Commission authorized the corporation to increase the interest rate upon its Series "B" bonds, and to issue certain additional Series "C" bonds upon the condition among others that San Joaquin Light and Power Corporation should:-

" within ninety days submit to this Commission a financial plan by means of which it proposes to secure funds to defray the cost of necessary extensions, additions and betterments from moneys other than through the sale of bonds."

Although admitting its willingness to submit a plan for junior financing as above set forth, San Joaquin Light and Power Corporation has from time to time requested a delay, first upon the ground that the state of the money market was not favorable to the flotation of additional securities, and later upon the ground that it desired to determine the effect of the reduction in electric rates ordered by the Commission.

Ample time has now been afforded to determine the effect of the revised electric rates which the applicant has established by order of this Commission. Although these rates have been in effect for a period of one year, the company is able to report the greatest earnings in its history. The rate reductions have served to stimulate business to such an extent that the company is enjoying larger profits under the new than under the old and higher schedule. The company reports earnings from its entire business for the calendar years 1915 and 1916 as follows:

	1915	1916
Operating Revenue	1,733,255.36	1,727,408.58
Operating Expenses	730,834.20	687,318.33
Net Operating Revenue	1,002,421.16	1,040,090.25
Non Operating Revenue	8,737.43	21,410.23
Gross Corporate Income	1,011,158.59	1,061,500.48
Non Operating Revenue Deductions:	556.94	535.52
Interest Accrued on Funded Debt	402,628.63	461,888.38
Other Interest Deductions	81,006.95	12,263.15
Rent Deductions	80.50	--
Miscellaneous Deductions	33,772.92	16,264.89
Total Deductions	518,045.94	490,951.94
Corporate Surplus	493,112.65	570,548.54
Balance Corporate Surplus	386,253.85	727,578.99
Profit for Year	493,112.65	570,548.54
Miscellaneous Additions	8,978.12	1,844.36
Total Additions for Year	502,090.77	572,392.90
Dividends	--	--
Miscellaneous Deductions	160,765.63	162,735.75
Total Deductions	160,765.63	162,735.75
Balance	727,578.99	1,137,236.14

The Company submitted the following Balance
Sheet as of December 31, 1916:-

ASSETS.

Fixed Capital	\$25,559,963.05
Cash	350,017.65
Notes Receivable	313,961.88
Accounts with System Corporations	346,820.72
Due from Consumers and Agents	273,185.42
Miscellaneous Accounts Receivable	153,744.55
Securities of Other Corporations	309,907.82
Miscellaneous Investments	32,024.23
Materials & Supplies	355,843.71
Sinking Funds	161,242.32
Treasury Securities	652,835.75
Prepaid Taxes	566.09
Prepaid Insurance	2,038.17
Other Prepayments	1,410.70
Unamortized Discount on Stock	1,250,000.00
Unamortized Discount on Bonds	366,251.25
Other Suspense	251,737.42
Construction Work in Progress	631,837.29
Total	<u>\$31,013,388.02</u>

LIABILITIES.

Capital Stock	\$ 17,500,000.00
Funded Debt	10,010,000.00
Notes Payable	122,408.44
Audited Vouchers and Wages Unpaid	274,197.20
Consumers Deposits	26,210.65
Miscellaneous Accounts Payable	37,430.94
Interest Accrued	175,764.14
Taxes Accrued	7,478.63
Dividends Declared	16,406.25
Service Billed in Advance	12,085.61
Reserve for Accrued Depreciation	633,983.92
Casualty & Insurance Reserves	21,000.70
Reserves Invested in Sinking Funds	638,242.32
Other Reserves from Income or Surplus	79,683.10
Capital Surplus	321,259.98
Corporate Surplus Unappropriated	<u>1,137,236.14</u>
Total	\$ 31,013,388.02

In compliance with the Commission's suggestion that the Company prepare a plan of supplemental financing, this application is presented. It is the purpose to execute a trust agreement providing for a total issue of \$4,500,000.00 of six percent ten year debentures. It is the intention to

issue of \$1,000,000.00 of these debentures at this time and a contract has been made for their sale at 95 per cent of their face value. It is the purpose to expend the proceeds from the sale of these debentures for the necessary additions and betterments to applicant's properties for the period beginning January 1, 1917.

The applicant has presented a detailed construction program providing for a total outlay from the period January 1, 1917 to March 31, 1918 of \$2,362,941.44. In this proceeding the applicant asks reimbursement for its capital expenditures made in January, 1917, amounting to\$ 71,304.98 and in February, 1917 of 106,438.16 Total\$177,743.14

The details of applicant's construction program are set forth in Exhibits No. 4, No. 5, and No. 6 submitted in connection with the application herein, to which reference is hereby made. A summary of larger items is here given:-

Completion of Kern Canyon Plant	\$114,334.39
Completion of Power House No. 2	171,740.25
Construction of 60 K. V. line from Copper Mine Sub-Station to Sayres Corner	66,383.64
Construction of Galvanized Iron Bldg. and Installing 1 -2000 K. V. Turbine Alternator Set at Betteravia	50,463.91
Improvements Selma Dist. System	5,911.36
Constructing 60 K. V. Substation at Corcoran	8,797.64
New Substation at Alpaugh	17,635.00

Completing construction of 60 K. V. line from Henrietta Sub-Station to Corcoran, etc.....	\$ 185,928.62
Completing new Sub-Station west of Fresno.	21,828.55
Construction of lines 16 miles down Merced River	25,081.90
Enlarging building and installing boilers at Betteravia	33,914.96
Extension to Bowles including 2½ miles of side lines	9,414.29
Improvements at Corcoran Sub-Station	17,240.96
Battery of boilers and new circulating water cooling system at Bakersfield Steam Plant	75,000.00
Transmission lines - Raymond to Merced Falls	72,600.00
Rebuilding line from Merced to Merced Falls	12,000.00
60 K. V. line - Merced to Los Banos	55,000.00
60 K. V. line - Corcoran to Alpaugh	53,255.00
60 K. V. line - Alpaugh to Famosa	77,000.00
New Sub-Stations at Merced Falls, - Merced and Alpaugh	60,521.95.

The balance of the expenditures are for the most part contemplated extensions in distribution lines. This program of construction indicates that San Joaquin Light and Power Corporation has in prospect a very large amount of new business, which will further augment its revenues.

In connection with this additional construction, the applicant will depart from its former system of financing. Under the mortgage securing its bonds, it may issue these securities for 85 per cent of the cost of additions and betterments. The applicant stated at the hearing that hereafter it proposes to issue its

mortgage bonds for only 75 percent of the cost of additions and betterments and to finance the remaining 25 per cent through the medium of debentures or otherwise. This would release earnings for the resumption of dividends on the preferred stock.

The \$1,000,000.00 of debentures which applicant proposes to issue at this time will be called "Series A". They will be dated May 1, 1917 and will mature May 1, 1927. The trust agreement providing for the issue of these debentures permits of additional series of which the dates of issue and maturity are to be later determined. The first issue of Series A debentures will be redeemable up to May 1, 1922 at 2 per cent premium, thereafter at 1 per cent premium. In case the Corporation shall hereafter obtain from the Railroad Commission the necessary authority, any of the debentures issued under the trust agreement will be converted into preferred stock of San Joaquin Light and Power Corporation upon such terms as the Commission may prescribe. The trust agreement restricts the amount of floating indebtedness of the applicant, provides for the protection of the status of the debentures, contains provision in event of default and safeguards the issue against the interposition of any additional mortgage.

Under the plan of financing as here proposed, the applicant will be enabled to raise necessary funds for its development through bonds and debentures. As the Company is now able to sell its bonds at approximately par and has obtained a market for these debentures at 95 per cent of their face value, it will obtain its funds at reasonably low cost, and through the elimination of previously heavy discounts on its securities, will be able to avoid the complications

of a heavy and burdensome floating indebtedness. At the same time, it is well for this applicant to hold in mind that a debenture lacks the element of permanency and will therefore in the end prove less satisfactory than some form of high-class stock issue. As far as the present application is concerned, I see no objection to the issue of these debentures, but I believe the applicant should have in mind some plan which may eventually permit of their conversion into stock. It is hardly sufficient to urge that the trust agreement is of the so-called "circular type", which permits of the refunding of these debentures by subsequent issues.

It is apparent, however, that the applicant has made steady progress and has proceeded in good faith to map out an auxiliary plan of financing its necessities. As part of this plan it is now the intention of the applicant to resume dividends at the rate of 6 percent upon its preferred stock. Although the earnings permit of such dividends, I would caution the applicant against a disbursement of such an amount as would impair its financial stability. I leave this, of course, to the discretion of the company's directors, but would urge that any action now taken should have in mind, not a temporary advantage, but the good of this corporation in the many years to come.

This Commission can only view with satisfaction and pleasure the evidences of financial strength on the part of a public utility under its jurisdiction, particularly when such financial strength comes from a rate

revision by which the consumers are permitted to share with the stockholders the benefits of public regulation.

I recommend that the application be granted and submit the following form of order:-

O R D E R .

San Joaquin Light and Power Corporation having applied to this Commission for authority to execute a trust agreement to secure an issue of debentures and to issue \$1,000,000.00 face value of such debentures, and a hearing having been held, and it appearing that the money and property to be procured and paid for by such issue are reasonably required for the purposes specified in the order herein and it appearing further that the purposes for which the applicant proposes to issue said debentures are not in whole or in part reasonably chargeable to operating expenses or income.

IT IS HEREBY ORDERED that San Joaquin Light and Power Corporation be granted authority, and it is hereby granted authority to execute a trust agreement to Security Trust and Savings Bank of Los Angeles, substantially in the form of a copy of said trust agreement filed in connection with the application herein and marked "Exhibit 1", to which reference is hereby made, and

IT IS HEREBY FURTHER ORDERED that San Joaquin Light and Power Corporation be granted authority and it is hereby granted authority to issue \$1,000,000.00 face value of its 6 percent 10 year debentures under said trust agreement to Security Trust and Savings Bank of Los Angeles.

The authority herein granted to issue said debentures is granted upon the following conditions and not otherwise:-

1. - Debentures herein authorized to be issued shall be sold so as to net the applicant not less than 95 percent of the face value thereof plus accrued interest thereon.

2. - The proceeds from the sale of said debentures shall be used either to reimburse the applicant for expenditures already made from its income for additions and betterments to its plant and system since January 1, 1917 or to pay in whole or in part for the cost of said additions and betterments to applicant's plant and system either made or to be made, all in accordance with the details submitted by the applicant in Exhibits No. 4, No. 5, and No. 6 filed in connection with the application herein, to which reference is hereby made; said exhibits covering applicant's program of construction from January 1, 1917, to March 31, 1918.

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 debentures herein authorized to be issued; and on or before the twenty-fifth day of each month the company shall make verified reports to the Railroad Commission stating the sale

or sales of said debentures during the preceding 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 24, which order, in so far as applicable, is made a part of this order.

4. - The authorization herein given to applicant to execute the trust agreement to Security Trust and Savings Bank is given on the condition that no modification, amendment or addition shall be made to said trust agreement unless the same shall have been approved by this Commission.

5. - The authority herein granted to San Joaquin Light and Power Corporation to issue debentures is conditioned upon the payment by San Joaquin Light and Power Corporation of the fee prescribed by the Public Utilities Act.

6. - The authority herein granted to San Joaquin Light and Power Corporation to issue

debentures shall apply only to such debentures as shall have been issued on or before June 30, 1918.

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 28th day of April 1917.

Max Thelen

W. H. Boardman

Edwin C. Edgerston

Frank R. Wilson
Commissioners.

Roll of Commission of State of California
Fee \$1000.00
MAY 2 1917
BY H. P. Mathewson
Assistant Secretary.