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

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application )  
of MIDLAND COUNTIES PUBLIC SERVICE )  
CORPORATION, for an order authoriz- )  
ing the issue of bonds. )

Application No. 2837

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Short and Sutherland,  
by W. A. Sutherland, for applicant.

THELEN, Commissioner.

O P I N I O N

In this application as originally filed,  
Midland Counties Public Service Corporation asked for au-  
thority to issue \$825,000.00 face value of its First and  
Refunding Mortgage Gold Bonds. At the hearing applicant  
asked for authority to file an amendment to its petition.  
This amendment has since been filed and the Commission is

now asked to authorize the issue of not less than \$387,000.00 face value of applicant's first and refunding mortgage bonds to discharge floating indebtedness, to defray the cost of proposed additions and betterments and to retire underlying bonds as hereinafter more fully set forth.

Midland Counties Public Service Corporation was formerly known as Coalinga Water and Electric Company. In 1913 the latter company acquired the properties of Midland Counties Gas and Electric Company, serving the towns of San Luis Obispo and Santa Maria; Paso Robles Light and Water Company, serving the town of Paso Robles; San Miguel Light and Water Company, serving the town of San Miguel; and Russel-Robinson Water and Electric Company, serving the town of Arroyo Grande. At the same time the name of Coalinga Water and Electric Company was changed by decree of the Superior Court of Fresno County to Midland Counties Public Service Corporation.

At the present time applicant serves electricity in the towns of Coalinga, San Miguel, Paso Robles, Templeton, Santa Margarita, San Luis Obispo, Arroyo Grande, Guadalupe, Santa Maria and in the suburban territory adjacent to these towns.

Midland Counties Public Service Corporation purchases all of its electrical energy from San Joaquin Light and Power Corporation. This energy is conveyed over a 60,000 volt transmission line, 137 miles in length, from the Henrietta sub-station of the San Joaquin Light and Power Corporation in Kings County, through Coalinga, San Miguel, Paso Robles, and San Luis Obispo to Santa Maria in Santa Barbara County.

Applicant also owns a high pressure gas transmission system from the oil fields southeast of Santa

María to San Luis Obispo and Oilport. At the present time applicant is serving natural gas in San Luis Obispo and has recently been given authority by this Commission to serve the towns of Avila, Pismo and suburban territory between Oilport and San Luis Obispo.

Applicant distributes water in the towns of Paso Robles and Arroyo Grande. At the present time negotiations are being carried on for the sale of the water system in Paso Robles to the municipality.

As of December 31, 1916 applicant reported consumers as follows:-

Electric . . . .	4040
Gas . . . . .	238
Water . . . . .	<u>578</u>
Total . . . .	4856

Applicant has a total authorized issue of 10,000 shares of common capital stock of the par value of \$100.00 per share, all of which is outstanding, and a similar issue of 6 per cent cumulative preferred stock, of which 5 shares are outstanding.

Applicant reports bonds outstanding at the present time as follows:-

<u>Company</u>	<u>Name</u>	<u>Rate</u>	<u>Date</u>	<u>Date</u> <u>Maturity</u>	<u>Authoriz-</u> <u>ed</u>	<u>Outstand-</u> <u>ing</u>
Midland Counties Pub.Ser. Corp.	First & Ref.	6	10/1/13	10/1/53	\$3,000,000	\$455,000.
Coalinga Water & Electric Co.	First Mtge.	6	1/1/10	1/1/40	2,000,000	53,000.
Midland Counties Gas & Elec. Co.	First Mtge.	6	1/1/12	1/1/32	<u>1,000,000</u>	<u>270,000.</u>
				Total	\$6,000,000	\$778,000.

Under the terms of applicant's First and Refunding Mortgage, the corporation may issue bonds to the total amount of \$3,000,000.00. Of this amount \$821,000.00 face value of bonds are reserved for refunding purposes and \$679,000.00 may be issued for the full cost of additions and betterments when net earnings for the twelve months ending two months before when date of request is made, are one and one-half times the interest on all bonds outstanding and applied for. The remaining bonds in the sum of \$1,500,000.00 may be issued for 85 per cent of the cost of additions and betterments when net earnings for the twelve months preceding shall have been one and three-fourths times the interest on all bonds outstanding and applied for.

At the hearing applicant filed a copy of its financial statement for the month ending March 31, 1917 (Exhibit Number "1" of Petitioners). This statement shows notes payable in the total sum of \$399,698.97 and accounts payable in the total sum of \$153,037.80. Other current liabilities, consisting of accruals, pay-rolls, etc., amount to \$58,670.74, making the total current liabilities as of March 31, 1917, \$611,407.51. To these figures should be added approximately \$85,000.00 which applicant owes on account of the purchase of its natural gas transmission system from the Santa Maria oil fields to San Luis Obispo.

Following is applicant's balance sheet as reported to the Commission for the year ending December 31, 1916:-

ASSETS

Fixed Capital . . . . .	\$1,962,276.33
Cash . . . . .	3,170.04
Notes Receivable . . . . .	3,397.27
Due from Consumers and Agents . . . . .	33,751.95
Miscellaneous Accounts Receivable . . . . .	54,911.59
Materials and Supplies. . . . .	53,166.58
Sinking Funds . . . . .	37,244.33
Treasury Securities . . . . .	1,026.17
Prepaid Taxes . . . . .	160.03
Prepaid Insurance . . . . .	339.35
Other Prepayments . . . . .	172.84
Unamortized Discount on Bonds . . . . .	46,787.01
Other Suspense. . . . .	8,670.13
Construction Work in Progress . . . . .	271,115.22
Corporate Deficit . . . . .	<u>51,537.75</u>
Total Assets . . . . .	\$2,527,726.59

LIABILITIES

Capital Stock . . . . .	\$1,000,500.00
Funded Debt . . . . .	825,000.00
Notes Payable . . . . .	399,498.97
Accounts Payable . . . . .	121,861.34
Interest Accrued. . . . .	27,389.42
Taxes Accrued . . . . .	1,109.22
Service Billed in advance . . . . .	1,631.32
Reserve for Accrued Depreciation. . . . .	82,456.12
Casualty Insurance Reserves . . . . .	6,266.47
Reserves Invested in Sinking Funds. . . . .	42,244.33
Other Reserves from Income or Surplus . . . . .	<u>19,769.40</u>
Total Liabilities. . . . .	\$2,527,726.59

Following are comparative income and profit and loss accounts for the years 1913 to 1916 inclusive as reported by applicant to the Commission:-

	<u>1913</u>	<u>1914</u>	<u>1915</u>	<u>1916</u>
<u>Operating Revenues:</u>				
Electric	\$170,103.65	\$168,693.27	\$169,851.16	\$207,747.82
Gas	23,849.30	26,232.95	27,374.14	16,439.57
Water	10,836.96	10,337.84	10,889.26	11,463.75
Total Operating Revenues	\$204,789.91	\$205,264.06	\$208,114.56	\$235,651.14
<u>Operating Expenses:</u>				
Electric	123,520.64	121,216.83	121,085.48	114,923.10
Gas	13,777.81	17,873.72	20,404.97	21,065.50
Water	7,272.40	9,006.50	8,743.25	9,692.87
Total Op. Expenses	\$144,570.85	\$148,097.05	\$150,233.70	\$145,681.47
Net Op. Revenue	60,219.06	57,167.01	57,880.86	89,969.67
Non-Op. Revenues	4,013.74	472.92	2,970.59	1,537.61
Gross Corporate Income	64,232.80	57,639.93	60,851.45	91,507.28
<u>Deductions:</u>				
Int. on Funded Debt	47,738.31	48,837.32	49,727.33	49,500.00
Other Interest	17,483.33	25,122.23	26,997.64	27,259.68
Misc. Deductions	2,176.81	2,477.59	2,406.74	2,767.30
Total Deductions	\$67,398.45	\$76,437.14	\$79,131.71	\$79,526.98
Balance to Profit and Loss	3,165.65 *	18,797.21*	18,280.26*	11,980.30
Misc. Additions	2,410.39	22,769.85	1,495.58	581.33
Misc. Deductions	24,264.67	19,154.57	17,008.21	18,210.26
Surplus at Beginning of Year	28,105.63	3,085.70	12,096.23*	45,889.12*
Surplus at End of Year	3,085.70	12,096.23*	45,889.12*	51,537.75*

\* Deficit

In connection with the application now before the Commission, applicant has filed a valuation prepared by Mr. G. R. Kenny. Based upon average prices over a period of years, Kenny finds a reproduction cost new as of September 30, 1916 of \$1,441,728.63. Following is a segregation of the principal items making up the above total:-

Gas Department:-

Gas Transmission system.....\$327,271.57  
 San Luis Obispo system ..... 84,159.47

\$411,431.04

Water Department ..... 70,325.20

Electric Department:-

Land .....\$ 9,688.50  
 Production Capital..... 83,352.36  
 Transmission Capital ..... 337,233.75  
 Distribution Capital ..... 417,522.05  
 General Equipment ..... 43,997.08  
 Working Capital  
 (Electric) ..... 62,240.65

Total Electric .....\$954,034.39

General Non-operative property ..... 5,938.00

Grand total .....\$1,441,728.63

Mr. Kenny has also prepared a valuation based upon the present high prices of wire and pipe, showing a reproduction cost new as of September 30, 1916, of \$1,810,230.04.

Applicant urges that the latter figure should be used by this Commission in determining the value of the property for bonding purposes. This contention might be urged with some merit were applicant asking for an issue of short term securities. The bonds in question, however, have

a remaining life of 36 years. It seems to me, obvious that any issue of long term bonds, in so far as it is based upon property values, should be predicated upon the closest approximation to average or normal value which it is possible to obtain. Only by so doing can a conservative ratio be maintained between the value of the property and the outstanding bonded debt.

At the hearing applicant presented certain data as to changes in the value of its property since September 30, 1916 for the purpose of bringing Mr. Kenny's valuation down to February 28, 1917. Applying these changes to Mr. Kenny's valuation, based on average prices, we arrive at the following result:-

Reproduction cost as of September 30, 1916 . . . . .	\$1,441,728.63
Plus additions and betterments to February 28, 1917 . . . . .	<u>63,982.24</u>
	\$1,505,710.87
 <u>Less</u>	
Steam plants no longer used. . . . .	\$ <u>51,693.00</u>
Reproduction cost as of Feb.28,1917.	\$1,454,017.87

No data has been presented by applicant as to the present value of its property other than the testimony by Mr. Kenny at the hearing that in his opinion the present value would be not less than 90 per cent of the reproduction cost.

No valuation of applicant's property has been made by this Commission nor has any check of applicant's valuation been made by the Commission's engineers. It is



certain, however, that if such a valuation or check were made a number of items claimed by applicant would be excluded or materially reduced, as for example the inclusion of applicant's gas transmission line at a reproduction cost as of February 28, 1917 of \$341,753.06, although the price paid therefor plus additions and betterments to February 28, 1917 was only \$162,928.59.

Based upon the value of its properties as found by Mr. Kenny, applicant in its amended petition asks for authority to issue and sell at the present time \$222,000.00 face value of its First and Refunding Mortgage Bonds. The issue of this amount of bonds will bring applicant's total bonded debt up to \$1,000,000.00. The purpose for which applicant desires to issue this \$222,000.00 face value of bonds is not stated in the petition, but from the testimony at the hearing it appears that it is the corporation's intention to use the proceeds in reducing its floating indebtedness.

Applicant further desires to issue not less than \$109,000.00 face value of First and Refunding Bonds for 80 per cent of proposed additions and betterments during 1917 and to issue \$56,000.00 face value of bonds to retire a like amount of underlying bonds of Coalinga Water and Electric Company.

In case applicant is unable to sell any of the bonds authorized for purposes other than refunding underlying bonds, it requests authority to pledge said bonds as security for promissory notes in a ratio of not to exceed \$100.00 of bonds for \$65.00 of notes. Under the facts herein presented, I am not disposed to recommend such pledge at this time.

Applicant has submitted an exhibit (Petitioner's Exhibit Number "2") showing its proposed additions and betterments for 1917. This exhibit may be summarized as follows:-

	<u>Estimated</u> <u>Expenditures</u>
Coalinga Oil fields . . . . .	\$ 22,500.00
Santa Maria oil fields. . . . .	17,000.00
Town and local extensions required to take care of ordinary growth of territory. . .	25,000.00
Kieselguhr Company extension and transmission . . . . .	2,000.00
Union Beet Sugar Company. . . . .	3,300.00
Extension of 60,000 volt line to Los Alamos and sub-station for betterment of service . . . . .	56,000.00
Associated Oil Company - Zaca Canyon . . . . .	<u>10,000.00</u>
Total. . . . .	\$135,800.00

Applicant's electric business has shown a considerable increase during the past year due to renewed activity in the oil fields and in the beet sugar industry. Applicant's engineer estimates that the increase in net income for 1917 will be approximately \$70,000.00.

Applicant has made no contract for the sale of the bonds herein applied for, but A. C. Balch, applicant's president, testified that he was certain the company could obtain better than 95.

In case this application is granted petitioner proposes to levy immediately an assessment upon its stockholders for \$100,000.00 and to levy a similar assessment

within one year's time, for the purpose of reducing its floating indebtedness. The order herein will contain a condition providing that petitioner shall file a stipulation agreeing to levy such assessments.

The \$56,000 of First and Refunding Bonds which applicant desires to issue to retire a like amount of underlying bonds of Coalinga Water and Electric Company may now be issued for this purpose under Decision Number 966, (Vol. 3, Opinions and Orders of the Railroad Commission of the State of California, page 598). The authority granted by said decision will expire, however, on May 31, 1917. Applicant's request may be granted either by an extension of time under Decision Number 966 or by an order herein. Applicant has asked that the latter method be followed and I see no objection to granting this request. As the testimony at the hearing shows that at the present time but \$53,000 face value of bonds of Coalinga Water and Electric Company are outstanding, the authority to issue First and Refunding bonds in exchange therefore, will be limited to this amount.

I am not persuaded to applicant's view that the value of its properties as presented to the Commission in this application will warrant a further issue of \$222,000 face value of bonds.

Without making any finding as to the value of applicant's property, I am willing to recommend an issue of \$70,000 face value of bonds at this time for the purpose of refunding a portion of applicant's floating indebtedness provided such indebtedness was incurred for proper capital purposes. I am further willing to recommend

an issue of \$109,000.00 face value of bonds to defray a portion of the cost of additions and betterments during 1917.

I accordingly submit the following form of Order:-

O R D E R

MIDLAND COUNTIES PUBLIC SERVICE CORPORATION  
having applied to this Commission for authority to issue \$387,000.00 face value of its First and Refunding Mortgage Gold Bonds as hereinbefore set forth;

And a public hearing having been held;

And it appearing to this Commission that the money, property or labor to be procured or paid for by such issue is reasonably required for the purpose or purposes specified in the order which purposes are not reasonably chargeable in whole or in part to operating expenses or to income;

IT IS HEREBY ORDERED that Midland Counties Public Service Corporation be and it is hereby authorized to issue \$232,000.00 face value of its First and Refunding Mortgage Gold Bonds, dated October 1, 1913 and maturing October 1, 1953.

The authority herein granted is granted upon the following conditions and not otherwise:-

1.-The bonds herein authorized to be issued shall be issued for the following purposes only:-

(a)-\$ 70,000.00 face value of bonds to refund floating indebtedness incurred for proper capital purposes.

(b)-\$109,000.00 face value of bonds to defray a portion of the cost of the proposed additions and betterments set forth in Exhibit Number "2" of Petitioners.

(c)-\$ 53,000.00 face value of bonds to retire a like amount of underlying bonds of Coalinga Water and Electric Company, said bonds to be retired on the basis of bond for bond of equal par value.

2.-The bonds authorized in Paragraph "1" above under Sections "a" and "b" shall be issued so as to net applicant not less than 95 per cent of their face value and accrued interest.

3.-Before issuing any bonds under Section "a" of Paragraph "1" above, applicant shall file with this Commission a statement of the floating indebtedness which it proposes to pay out of the proceeds of such bonds, and secure this Commission's approval of such statement evidenced by supplemental order.

4.-The authority herein granted shall not become effective until applicant shall have filed with this Commission a stipulation duly approved by its Board of Directors agreeing that within one year from the date of this order, there shall be levied upon the stockholders of Midland Counties Public Service Corporation, a stock assessment or assessments for the purpose of refunding floating

indebtedness, the total amount of said assessment or assessments to be not less than \$200,000.00, and applicant shall secure from this Commission a supplemental order approving said stipulation.

5.-Midland Counties Public Service Corporation shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the issue and sale of the bonds 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 bonds 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 No. 24, which order, in so far as applicable, is made a part of this order.

6.-The authority herein granted to Midland Counties Public Service Corporation to issue bonds is conditioned upon the payment by Midland Counties Public Service Corporation of the fee prescribed by the Public Utilities Act.

7.-The authority herein granted Midland Counties Public Service Corporation to issue bonds shall apply only to such bonds as shall have been issued on or before June 1, 1918.

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

Dated at San Francisco, California, this 2d day of June, 1917.

State of California  
Fee \$179.00  
JUN 7 1917  
BY H. Mathuser  
Assistant Secretary

Max Thelen  
W. Howard  
W. L. ...  
Edwin O. Edgerton  
Frank ...

Commissioners.

Balance of  
FEE PAID ON ... APPLICATION  
No. 742 Decision No. 966  
Dated 24th day of Sept 1913  
H. Mathuser  
Assistant Secretary.  
Railroad Commission, State of California.