

## BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application  
of TULARE COUNTY POWER COMPANY  
for an order authorizing it to  
execute a mortgage and deed of trust  
to Mercantile Trust Company of San  
Francisco, and to sell or pledge as  
security \$300,000.00 of bonds.

Application No. 368.

A. M. Drew and Goodfellow, Bels and Orrick,  
for Tulare County Power Company;  
Jesse W. Illienthal, for Mt. Whitney Power  
& Electric Company;  
Robert McGahie, for F. W. Corcoran, a stock-  
holder in Tulare County Power Company.

LOVELAND, Commissioner.

OPINION.

This is an application by Tulare County Power Company to execute a mortgage and deed of trust to Mercantile Trust Company of San Francisco to secure an authorized issue of \$500,000.00 of bonds; and to issue or pledge as collateral security \$300,000.00 of said bonds. Tulare County Power Company asks also that the Commission vacate its Order of September 25, 1912 authorizing said corporation to mortgage its property to Thomas C. Job.

Tulare County Power Company is engaged in the business of furnishing light and power in the county of Tulare. It began operations on April 17, 1912 and on July 11 last year was given authority, under an Order of this Commission, to distribute and sell electricity under franchises in Tulare county and in the cities of Tulare, Lindsay and Exeter, of said county.

Thereafter, upon application of said corporation, this Commission issued an Order on September 25 empowering Tulare County Power Company to mortgage its property to Thomas C. Job in the amount of \$175,000.00. The order upon this matter contained a description of applicant's plant, operations, territory and general financial condition. It is not necessary, therefore, to go into these details

again for the purposes of the matters now under consideration. The negotiations with Thomas C. Job failed of consummation and the applicant now desires to enter into new arrangements to obtain money for future financing.

The applicant has been operating less than one year and may be regarded as in the initial period of business development. It was able to show ownership of physical properties of a value in excess of the proposed issue of bonds of \$300,000.00. The profit and loss statement indicates that applicant is more than making ordinary operating expenses and shows a steady increase in gross earnings.

Due allowance must be made for a corporation in its first year of operation. It cannot be expected to show its full earning strength and a substantial increase of gross receipts month by month cannot but be regarded as a hopeful indication of future stability. Tulare County Power Company operates in a rich agricultural section and is drawing a large part of its revenues from pump irrigation business. There is a large field for the development of this business and the applicant herein proposes with a portion of the proceeds from the sale of its bonds to extend its transmission lines so as to reap the full benefits of the business now offered.

It is the purpose of Tulare County Power Company to execute its mortgage and deed of trust, dated January 2, 1913, to Mercantile Trust Company to secure an issue of \$500,000.00 of 6% sinking fund bonds of the par value of \$500.00 each and to sell or hypothecate \$300,000.00 of said bonds. It is proposed to devote the proceeds from the sale of these bonds to the following purposes:-

|                                                                                                                  |                   |
|------------------------------------------------------------------------------------------------------------------|-------------------|
| To discharge notes payable, as listed in the application on file with this Commission in the sum of . . . . .    | \$ 156,681.61;    |
| To discharge accounts payable, as listed in the application on file with this Commission in the sum of . . . . . | 48,733.17;        |
| To pay "vouchers and pay checks payable", as listed in the application on file with this Commission . . . . .    | 8,916.02;         |
| To build transmission lines to connect with new business as offered . . . . .                                    | <u>60,000.00.</u> |
| Total . . . . .                                                                                                  | \$ 274,330.80     |

Nearly all of this indebtedness has been incurred in the purchase and installation of electrical equipment and machinery.

An engineer and an accountant from the Commission have made an inventory of applicant's property and have made an inspection of its accounts. Upon the basis of their report, I find that there are properly chargeable to capital account all of the notes payable, with the exception of notes in the sum of \$3,500.00 representing commissions on stock, leaving an amount to be paid from the proceeds of bonds of . . . . . \$ 153,181.61.

I find also from the report rendered by the accountant of the Commission that, properly chargeable to capital account, are accounts payable in the sum of . . . . . 40,209.67, and "vouchers and pay checks payable" in the sum of . . . . . 6,208.66.

I find also that the transmission lines are needed and should be paid from the sale of the bonds in the sum of . . . . . 60,000.00

Total..... \$ 259,599.94

Applicant at first believed that it could sell its bonds at 90, but has since made representations to the Commission that it cannot well sell its bonds at a price above 80. This price for the 6% bonds would tend to cast a heavy interest burden upon the company. I believe that 85 should be the minimum price for the sale of these bonds and while I shall recommend that the applicant be given authority to sell these bonds at a minimum of 80, I shall join with it another recommendation that the balance to make up 85 be supplied by the stockholders.

At the hearing upon this application, Mt. Whitney Power & Electric Company intervened in opposition. Mr. Robert McGahie, representing Mr. F. W. Corcoran, stockholder in the Tulare County Power Company, also intervened in opposition. It was contended by Mr. Jesse

W. Lillienthal, representing Mt. Whitney Power & Electric Company, that the financial fabric and future prospects of Tulare County Power Company did not warrant an issue of bonds in the sum of \$300,000. as applied for. He argued that Tulare County Power Company was endeavoring to proceed upon a power rate of \$36.00 per horsepower per year to the holders of its consumers' stock, while, as he claimed, the Commission had found in a previous hearing that \$50.00 per horsepower was a reasonable rate. The reference was to the Opinion and Order of this Commission in Applications Nos. 81 and 104 and Case No. 268 in which San Joaquin Light and Power Corporation, Tulare County Power Company and Mt. Whitney Power & Electric Company were in controversy over territory to be served. In these cases the Commission was not engaged in establishing rates and I do not find anything therein that could be construed as a positive declaration by the Commission as to the reasonableness of the \$50.00 rate.

It was argued further, on behalf of Mt. Whitney Power & Electric Company, that the \$36.00 per horsepower rate of Tulare County Power Company could not but result in a deficit with disastrous consequences. I find, however, that the \$36.00 rate of Tulare County Power Company is intended to provide service at cost and that the contract for this \$36.00 rate contains a provision for the payment of an additional sum, if necessary, to cover the cost of the service.

The objections of Mr. McGahie covered the general financial standing of Tulare County Power Company. At the hearing a question was raised as to certain features of the hydroelectric project which Tulare County Power Company has under consideration. This objection, however, need not be considered in this case, as no part of the proceeds from the bonds applied for is to be devoted to the hydroelectric project.

I find after a careful review of the facts and the arguments for and against the application that ~~is~~ should be granted and I submit herewith the following form of Order:-

O R D E R .

Tulare County Power Company having applied to this Commission for an order authorizing the execution by said corporation of a certain mortgage and deed of trust, dated January 2, 1913, to Mercantile Trust Company of San Francisco, covering all its property to secure an issue of \$500,000.00 face value 6% sinking fund bonds of the par value of \$500.00 each, maturing January 2, 1953; and for authority to sell or hypothecate \$300,000.00 face value of said bonds; and for a further order of this Commission vacating the Opinion and Order of this Commission, dated September 25, 1912, authorizing said Tulare County Power Company to mortgage its property to Thomas C. Job; and a hearing having been duly held upon said application; and the Commission finding that the facts presented warrant the execution of said mortgage and deed of trust to Mercantile Trust Company and the cancellation of the previous order of this Commission empowering said Tulare County Power Company to mortgage its plant to Thomas C. Job; and that the bonds in the sum of \$300,000.00 now proposed to be issued are for purposes not in whole or in part reasonably chargeable to operating expenses or to income.

IT IS HEREBY ORDERED BY THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA that Tulare County Power Company be authorized, and it is hereby authorized, to execute a mortgage and deed of trust, dated January 2, 1913, to Mercantile Trust Company of San Francisco, a copy of which is annexed to the Application and marked "Exhibit D", covering all its property to secure an issue of \$500,000.00 face value 6% sinking fund bonds of the par value of \$500.00 each, maturing January 2, 1953, and that a certified copy of the same, when executed, shall be filed with this Commission.

IT IS HEREBY ORDERED that the Railroad Commission of the State of California authorize, and it does hereby authorize, said Tulare County Power Company to sell, or pledge as collateral security for a loan, \$300,000.00 face value of principal of said bonds on the terms and conditions hereinafter specified.

IT IS FURTHER ORDERED that the Railroad Commission of the State of California does hereby vacate and nullify its previous Order of September 25, 1912 in which Tulare County Power Company was empowered to mortgage its property to Thomas C. Job.

The bonds hereby authorized to be sold or pledged as security in the sum of \$300,000.00 shall be pledged or sold upon the following conditions and not otherwise:-

I. Said bonds shall be pledged for not less than 75% of their face value and only after this Commission has approved the note for the payment of which they may be given as security.

II. Tulare County Power Company shall sell said bonds to net said company not less than 80% of the face value of the principal thereof and accrued interest thereon.

III. Tulare County Power Company shall, by March 1, 1914, raise from the holders of its stock in a manner to be approved by this Commission, the sum of \$15,000.00 and shall invest said sum in additions or betterments to its plant or system.

IV. The proceeds from the sale of said bonds shall be applied solely to the following purposes:-

|                                                                                                                                                                                                                    |                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| The discharge of notes payable, as filed by applicant with this Commission, with the exception of four notes given in payment of commissions for the sale of stock in the sum of \$3,500., or a total of . . . . . | \$153,181.61.     |
| For the discharge of accounts payable, as filed with this Commission . . . . .                                                                                                                                     | 40,209.67         |
| For the discharge of "vouchers and pay checks payable" as filed with this Commission . . . . .                                                                                                                     | 6,208.66.         |
| For transmission lines. . . . .                                                                                                                                                                                    | <u>60,000.00.</u> |
| Total.....                                                                                                                                                                                                         | \$259,599.94.     |

V. Said bonds shall not be sold until Tulare County Pow-

er Company shall have filed with this Commission a statement showing that no mortgage has been executed of any of its properties to Thomas C. Job.

VI. Said company 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 company shall make verified reports to the Commission stating the sale or sales of said bonds during the preceding month, the terms and conditions of 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.

VII. The authority hereby given to issue such bonds shall apply only to bonds issued by said company on or before the 31st day of December, 1913. This order will become effective on payment of fee as prescribed by Section 57 of the Public Utilities Act.

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 20<sup>th</sup> day of February, 1913.

H. D. Leland  
Max Thelen  
Edwin O. Edgerton

Commissioners.