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ORIGINAL

Decision No. 1491

Decision No. _____

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of
SAN DIEGO AND ARIZONA RAILWAY COM-
PANY, for permission to purchase and
hold all the issued capital stock of
the San Diego and South Eastern Rail-
way Company, and to issue bonds to pay
for same, and of San Diego and South
Eastern Railway Company to sell its
property to San Diego and Arizona Rail-
way Company.)

) Application No. 3328.

Read G. Dilworth for Petitioners.

THELEN, Commissioner.

O P I N I O N .

In the amended petition herein, San Diego and Arizona Railway Company, hereinafter at times referred to as the San Diego and Arizona, asks authority to purchase the \$1,650,000.00 outstanding capital stock of San Diego and South Eastern Railway Company, hereinafter at times referred to as the San Diego and South Eastern, or to purchase the physical assets or both the physical assets and the outstanding capital stock of San Diego and South Eastern and to issue in payment for said capital stock and physical assets \$1,500,000.00 of its six per cent bonds. The San Diego and South Eastern joins in the amended petition herein.

A public hearing herein was held in Los Angeles on November 21, 1917.

The amended petition contemplates that the physical assets of the San Diego and South Eastern shall be transferred to the San Diego and Arizona as soon as practicable. The vendor company will issue no additional stock nor any bonds. After the transfer of its properties has been completed, the San Diego and South Eastern is to be dissolved.

San Diego and Arizona Railway Company was incorporated in 1906. It is engaged in constructing a line of railroad from San Diego to El Centro, Imperial County, California. A portion of the projected line passes through Mexico. This part of the line, extending from Tia Juana, on the international boundary line between the United States and Mexico to a station known as Lindero station, is owned by the Tia Juana and Tecate Railway Company, organized under the laws of Mexico. All of the capital stock of the Mexican Company is owned by the San Diego and Arizona. In conjunction with the Mexican Company, San Diego and Arizona now operates from the City of San Diego to Tia Juana on the Mexican boundary line, from Lindero to a point about six miles east and from of Campo, Carriso Pass to Seeley, in Imperial County.

The San Diego and Arizona has an authorized capital stock issue of \$6,000,000.00 of common stock. Of this amount, \$2,000,000.00 is outstanding. The testimony shows that of the outstanding stock, \$1,000,000.00 par value is owned by J. D. and A. B. Spreckels Securities Company and \$1,000,000.00 by the Southern Pacific Company. Up to September 30, 1917, the San Diego and Arizona reports that the Southern Pacific Company had advanced to it, including interest, the sum of \$4,645,179.46, while J. D. and A. B. Spreckels had advanced \$3,606,021.65. These amounts appear to have been expended for construction purposes. The testimony in this proceeding shows that the funds

necessary to complete the railroad are now being advanced by the Southern Pacific Company and that the San Diego and Arizona hopes that its line of railroad between San Diego and El Centro, Imperial County, will have been completed by September, 1918.

The San Diego and South Eastern was incorporated March 2, 1912, for the purpose of taking over the properties of the San Diego and Cuyamaca Railway Company and of the San Diego and Southern Railway Company. The San Diego and South Eastern reports \$1,650,000.00 par value of capital stock outstanding. Of this amount, \$770,000.00 was issued in exchange for the properties of the San Diego and Cuyamaca and \$880,000.00 for the properties of the San Diego and Southern. Of the outstanding capital stock of the San Diego and South Eastern, \$439,900.00 is owned by R. C. Gillis and \$1,209,500.00 by J. D. and A. B. Spreckels Securities Company, the remaining \$600.00 being owned by directors for qualifying purposes.

In Exhibit No. 3, petitioners report the assets and liabilities of the San Diego and South Eastern, as shown by its books, as of September 30, 1917, as follows:

ASSETS.

Investment in road and equipment	\$1,675,385.42
Miscellaneous physical property.	55,023.67
Other investments.	272.00
Cash	6,898.49
Loans and bills receivable	740.96
Miscellaneous accounts receivable.	13,585.68
Storeroom, stationery and ticket stock	2,876.68
Rents and insurance paid in advance.	1,605.01
Suspense items	8,661.71
Deficit.	<u>511,688.29</u>
Total assets.	\$2,276,737.91

LIABILITIES

Capital stock outstanding.	\$1,650,000.00
Notes payable.	563,896.31
Accounts payable	15,859.53
Accrued depreciation	46,370.99
Unadjusted debit items	<u>611.08</u>

Total liabilities. \$2,276,737.91

The San Diego and Arizona is willing to pay \$1,500,000.00 face value of its six per cent bonds for all of the outstanding capital stock of the San Diego and South Eastern or its assets or both its stock and assets free and clear of all indebtedness. The present stockholders of the San Diego and South Eastern have agreed to discharge all of the indebtedness of their company prior to the transfer of the stock or of the properties.

In Decision No. 1383, dated March 30, 1914, (Vol. 4, Opinions and Orders of the Railroad Commission of California, p. 539), the Railroad Commission found the reproduction cost of the operative properties of the San Diego and South Eastern as of June 30, 1912, to be not in excess of \$2,285,874.61 and the reproduction cost less depreciation to be \$1,912,754.20. The decision shows that the company reported the original cost of its properties as of June 30, 1912 at \$1,638,790.70. The San Diego and South Eastern now reports that from July 1, 1912 to September 30, 1917, because of flood damages, retirement of property and other causes, it deducted \$596,827.79 from its road and equipment account and that from July 1, 1912 to September 30, 1917, it expended for additions and betterments \$631,790.07. The net addition to its properties during this period is reported to be \$34,962.28.

Reference is here also made to Decision No. 786, dated July 10, 1913, (Vol. 3, Opinions and Orders of the Railroad Commission of California, p. 84), authorizing the San Diego

and South Eastern to issue \$343,000.00 face value of bonds; to Decision No. 2971, dated December 11, 1915, (Vol. 8, Opinions and Orders of the Railroad Commission of California, p. 714), authorizing the San Diego and South Eastern to increase rates; and to Decision No. 3317, dated May 8, 1916, (Vol. 10, Opinions and Orders of the Railroad Commission of California, p. 38), relative to the reconstruction of the San Diego and South Eastern's lines subsequent to the floods of January, 1916. The San Diego and South Eastern has issued none of the \$343,000.00 of bonds and does not intend to do so.

In Exhibit No. 3, the revenues and expenses of the San Diego and South Eastern are reported as follows:

SAN DIEGO AND SOUTHEASTERN RAILWAY COMPANY

INCOME ACCOUNT FOR FISCAL YEARS

JUNE 30, 1913 - 1917, inclusive

AND

FOR THREE MONTHS ENDING SEPTEMBER 30, 1917.

ITEM	1913	1914	1915	1916	1917	Three months ending Sept. 30, 1917
Operating revenues	\$428,693.98	\$365,703.36	\$305,433.42	\$222,936.82	\$125,659.64	\$42,023.20
Operating expenses	377,819.97	340,034.52	350,111.77	277,526.14	206,205.37	32,614.93
Net operating revenues	50,874.01	25,668.84	44,678.35*	54,589.32*	80,345.73*	9,408.27
Other Income	4,620.96	4,767.70	4,806.47	5,774.49	23,839.25	6,069.45
Gross income less operating expenses	55,494.97	30,436.54	39,671.88*	48,814.83*	56,505.48*	15,477.72
Deductions:						
Railway taxes	16,500.00	21,125.10	19,657.52	19,292.33	16,646.17	2,247.63
Depreciation of equipment	7,455.88	2,016.24	2,529.84	2,567.02	4,569.37	1,175.42
Joint facility rents	2,017.80	2,074.62	2,513.38	3,532.25	1,124.25	175.15
Interest on unfunded debt	5,972.06	13,400.10	21,833.52	23,438.97	28,485.85	7,974.13
Miscellaneous	66.00	103.00	81.07	123.20	1,234.41	479.01
Total deductions	32,011.74	38,719.06	46,415.33	46,953.77	52,060.05	12,051.34
Net income	23,483.23	8,282.52*	86,267.21*	97,768.60*	108,565.53*	3,426.38

* Loss.

The preceding table shows that the operating revenues of the San Diego and South Eastern decreased from \$428,693.98 for the year ending June 30, 1913, to \$125,859.64 for the year ending June 30, 1917. For the three months ending September 30, 1917 the operating revenues of the company are reported at \$42,023.20. The decrease in the company's earnings from 1913 to 1917 is attributed to the damage to orchards by frost in 1913; to jitney and motor truck competition; and to the floods of January, 1916.

The testimony in this proceeding shows that the orchards in the territory served by the lines of the San Diego and South Eastern have almost recovered from the frost of 1913; that the jitney and motor truck competition has to a large extent been eliminated through the enactment of ordinances by cities traversed by the lines of the San Diego and South Eastern; that the company's line has been rebuilt to Foster; that to secure traffic from the back country beyond Foster the company has acquired the existing motor trucks operating in that territory; and that by the acquisition of gas-electric cars, as heretofore recommended by this Commission, it has reduced the cost of operation on its eastern division from \$1.00 per car mile to 20 cents per car mile.

John D. Spreckels, William Clayton and E. J. Burns, appearing on behalf of the San Diego and South Eastern, testified that the earnings for the three months ending September 30, 1917, may be considered normal, and that the earnings of the company and the revival of business justify the sale of the properties for \$1,500,000.00 face value of six per cent bonds. William Clayton, Vice-President and Managing Director of the San Diego and South Eastern testified that The Atchison, Topeka and Santa Fe Railway Company has threatened to build into the territory now being served by his company, and that the Spreckels

interests are not in a position to successfully meet the Santa Fe competition. He testified that it will be beneficial to San Diego and vicinity if this consolidation is authorized and if the Southern Pacific, through the ownership of a one-half interest in the San Diego and Arizona, is thereby given a firm foothold in San Diego County. He believes that competition between the Santa Fe and the Southern Pacific will result in larger benefits to the shippers than competition between the Santa Fe and the San Diego and South Eastern.

Paul Shoup, representing the interest of the Southern Pacific Company in the San Diego and Arizona, testified that he had made a careful independent investigation into the business of the San Diego and South Eastern and that as a result of this investigation he was convinced that the San Diego and Arizona is justified in paying \$1,500,000.00 in six per cent bonds for the properties of the San Diego and South Eastern. The San Diego and Arizona looks upon the San Diego and South Eastern's lines as valuable feeders. Mr. Shoup testified that the San Diego and Arizona has no intention to ask for an increase in rates on the San Diego and South Eastern's lines if this application is granted.

Heretofore the Railroad Commission authorized the San Diego and Arizona to execute a mortgage to secure the payment of \$25,000,000.00 of five per cent forty year bonds. It is now the intention of the company to modify this mortgage so as to provide for an issue of six per cent bonds. The mortgage may also be modified in other particulars. Obviously until such time as the company has submitted to the Commission a copy of its amended mortgage and has secured authorization from the Commission to execute the same, no final order can be given in this proceeding.

Neither do I believe that the order herein should become effective until the Commission has approved the book entries relative to the transfer of the properties herein authorized. These properties should be taken on the books of the San Diego and Arizona at \$1,500,000.00, the purchase price. Obviously all of the books and records of the San Diego and South Eastern should be turned over and delivered to the San Diego and Arizona.

I recommend that this application be granted, subject to the conditions contained in the following form of order:

O R D E R .

SAN DIEGO AND ARIZONA RAILWAY COMPANY having applied to the Railroad Commission for authority to purchase the \$1,650,000.00 par value of outstanding capital stock of the San Diego and South Eastern Railway Company, or its physical assets, or both its physical assets and outstanding capital stock and to issue in payment therefor \$1,500,000.00 face value of its six per cent bonds, the SAN DIEGO AND SOUTH EASTERN RAILWAY COMPANY having asked authority to sell its properties to San Diego and Arizona Railway Company, a public hearing having been held and it appearing to the Railroad Commission that the money, property or labor to be procured or paid for by the issue of said bonds is reasonably required for the purpose specified in the order, and that the purpose for which the proceeds of the bonds may be expended is not in whole or in part reasonably chargeable to operating expenses or income,

IT IS HEREBY ORDERED that San Diego and South Eastern Railway Company be, and it is hereby granted authority to sell and transfer all of its physical assets free and clear of all

indebtedness to San Diego and Arizona Railway Company.

IT IS HEREBY FURTHER ORDERED that San Diego and Arizona Railway Company be, and it is hereby, granted authority to purchase the \$1,650,000.00 par value of outstanding capital stock of the San Diego and South Eastern Railway Company, or its physical assets, or both its physical assets and its outstanding stock, and to issue in full payment therefor \$1,500,000.00 of six per cent bonds at their face value, upon the following conditions and not otherwise:

1. The authority herein granted to issue bonds shall not become effective until San Diego and Arizona Railway Company has submitted to the Railroad Commission a copy of its amended mortgage or deed of trust, and has secured from the Railroad Commission an order authorizing the execution of said amended mortgage or deed of trust.

2. The authority herein granted shall not become effective until the Railroad Commission has approved the book entries relating to the transfer of the capital stock and properties herein authorized to be sold and transferred.

3. The consideration given for the public utility property herein authorized to be transferred shall not be taken before the Railroad Commission, or any other public body, as representing, for rate fixing or other purposes, the value of the property transferred.

4. San Diego and Arizona Railway Company, shall, within thirty days after the conveyance of the public utility property herein authorized to be made, file with the Railroad Commission a certified copy of the deed by which said property

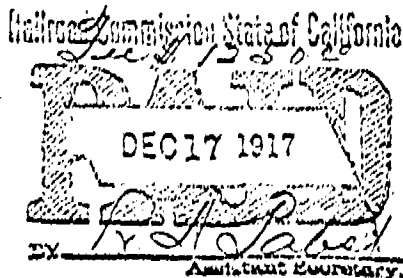
is conveyed and within thirty days after the issue of the bonds herein authorized the company shall file with the Railroad Commission a verified report of such issue as required by General Order No. 24, which order in so far as applicable is made a part of this order.

5. The authority herein granted to issue bonds shall not become effective until San Diego and Arizona Railway Company has paid the fee prescribed by the Public Utilities Act.

6. The authority herein granted to convey public utility property and to issue bonds shall apply only to such public utility property as is conveyed and to such bonds as are issued on or before July 1, 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 27th day of November, 1917.



Max Thebe
H. K. [Signature]
Alvin [Signature]
Edwin O. Edgerton

Commissioners.