

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application)
of Great Western Power Company for)
authority to issue its first mort-)
gage five per cent sinking fund)
forty year gold bonds to an amount) Application No. 357
of the face value of principal of)
such bonds sufficient at the price)
at which said bonds may be sold,)
to net \$3, 971,731.00.)

Guy C. Earl and Chaffee E. Hall for applicant.

EDGERTON, COMMISSIONER.

O P I N I O N

This is an application by Great Western Power Company for an order authorizing the issue of first mortgage five per cent sinking fund forty year gold bonds in denominations of \$1000, or a multiple thereof, in an amount of the face value of principal of such bonds sufficient at the price at which said bonds may be sold (such price to be not less than 90 per cent of the face value thereof as fixed in the first mortgage or deed of trust under which said bonds are to be issued) to net applicant the sum of \$3,971,731.

The financial condition of applicant is as follows:

STOCK

	Authorized	Issued
Common	\$27,500,000	\$27,500,000

BONDS

	\$25,000,000	\$20,366,000
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Floating Indebtedness \$620,561.34.

Applicant is a corporation organized under the laws of

the State of California, and since 1907 has been engaged in the business of generating, transmitting and selling electric energy for light, heat and power. Its system now in actual operation consists of a hydroelectric power plant of 40,000 kilowatt capacity, situated on the North Fork of the Feather River at Big Bend, Butte County; a steel tower transmission line extending from Big Bend to Oakland; transmission cables under the waters of the Straits of Carquinez and the Bay of San Francisco; high tension substations at Brighton, Sacramento County, Isleton, Sacramento County, Clayton and Cowell in Contra Costa County and Oakland, Alameda County, California; and approximately 504 miles of distribution lines in the Counties of Placer, Sacramento, Solano, Contra Costa, Alameda, Napa and Sonoma, and in the cities and towns in said counties, together with the necessary and proper substations, transformers, and other electrical equipment used in connection with said distribution lines. In the City of Oakland applicant is operating a steam generating station of 10,500 kilowatt capacity. This steam plant is owned by the California Electric Generating Company, a corporation, but the stock control is held by applicant, all the common stock except qualifying shares held by the directors being owned by applicant. From Oakland a cable beneath the waters of San Francisco Bay transmits current from the Oakland substation to San Francisco, where it is fed into the lines of the City Electric Company, a corporation, and all but 20 of the 50,000 shares of capital stock of the latter corporation are owned by applicant.

Said City Electric Company also owns and operates in San Francisco, a steam generating plant having a boiler capacity of 15,000 kilowatt, and generator capacity of 21,000 kilowatt, and distributes current over 60 miles of aerial and underground lines.

Applicant is selling and delivering approximately

17,500,000 kilowatt hours of electric energy per month to upwards of 7600 consumers in the above mentioned counties and the cities and towns thereof, and in addition it is selling and supplying through the City Electric Company, 5,000,000 kilowatt hours to approximately 3300 consumers in the City and County of San Francisco.

It is stated in the application, and this was supported by evidence introduced at the hearing, that a part of the system belonging to applicant was acquired from other corporations and that the original cost of these properties cannot be ascertained. The testimony was to the effect that the cost of its properties to applicant aggregated on December 1, 1912, \$47,375,594.65, which sum is made up as follows:

\$14,640,682.15 was paid for construction, \$25,000,000 in stocks and \$1,333,000 in bonds of applicant for the Big Meadows Properties, \$151,912.50 cash, \$2,500,000 stocks and \$3,750,000 bonds of applicant was paid for the capital stock of the City Electric Company and the California Electric Generating Company.

Applicant shows that in addition to its properties now in operation, it owns lands and water rights on the North Fork of the Feather River between Big Bend and Big Meadows, Plumas County, which applicant claims because of their location in a region of great rainfall and because the configuration of the land makes high drops available for power development by the construction of comparatively short tunnels, are of great value. Applicant also owns all but about 4000 acres of the total area of Big Meadows, a natural reservoir site covering an area of 45 square miles. Applicant states that it is the ultimate plan and purpose to develop all of its properties and apply the same to the generation of hydroelectric energy and to the irrigation of the lands of

the Sacramento Valley; that it now has under way a great dam at Big Meadows which will impound the waters of the Feather River in the Big Meadows reservoirs; and that it has commenced at the power house at Big Bend, the construction and installation of electrical units aggregating 22,000 kilowatts in addition to the units already there installed. It appears that applicant intends eventually by the installation of four additional power houses, to use the waters of the Feather River between Big Bend and Big Meadows to generate hydroelectric energy up to approximately 500,000 electrical horsepower. As showing a resulting public benefit of this development, applicant urges that the impounding of the waters of the North Fork of the Feather River and the utilization thereof for the generation of electricity will equalize the flow of said river, thereby increasing the navigability of the Sacramento River (into which the Feather River flows), eliminating the devastating effects of flood waters, and making said waters available for irrigation during the dry season. Applicant proposes that after using the waters at its power houses, to convey said waters to the Sacramento Valley and distribute the same over a large area of semi-arid land.

Applicant admits that it has invested large sums of money in preparation for the development of electrical energy which it is not now using, but the claim is made that this over-development was economical because eventually it should be made and to make it at this time would result in a saving over a development made from time to time only in proportion to the energy to be immediately used. The language in the application describing this condition and which was supported by evidence at the hearing, is as follows:

"That a large proportion of the cost of the properties of your applicant, that is to say, the Big Meadows lands, a large part of the lands and water rights on the North Fork of the Feather River between Big Bend and Big

Meadows, approximately fifty per cent of the concrete lined tunnel through the mountain at Big Bend, and a considerable portion of the present intake tower, header and power house at Big Bend, are foundation expenses; that is to say, a very great part of the cost of your applicants properties thus far was incurred for the ultimate development of five hundred thousand electrical horsepower, and would have been unnecessary and would not have been incurred if the present development at Big Bend were the only one contemplated. That the entire development can be completed and placed in operation at a much smaller cost per unit than the present installation, since the aforesaid foundation expenses will be divided proportionately between the present and future installation, thus reducing ultimately the unit cost per horsepower to approximately one hundred dollars****. That a large proportion of the power facilities which your applicant owns and is in possession of in the Feather River watershed is as yet unimproved. That, for instance, by expending money for the completion of the Big Meadows reservoir and dam, the properties and the assets of your applicant at Big Meadows will be enormously enhanced in value, and will be changed from inert and inactive and practically unproductive assets and properties to active and productive properties. In other words, there will be a creation and generation of wealth and value by the expenditure, for the purpose of completing the reservoir and dam at Big Meadows, of the moneys to be realized from selling of its bonds, and for the additions of the units 5 and 6 at the power house at Big Bend, and for that reason your applicant respectfully calls the attention of the Commission to the fact that your petitioner's financial condition will be greatly benefited by your petitioner being granted the right hereby prayed for to sell its bonds for the purpose of raising moneys to be expended in the manner herein indicated, and your petitioner further respectfully calls the attention of the Commission to the fact that by making the expenditures upon the said inert and inactive properties, etc., the security of the existing holders of the bonds of your applicant, as well as those who will become the holders of the bonds, which your petitioner hereby asks leave to sell, will be very greatly increased and strengthened, and the equity in the property will be enormously augmented over the existing equity."

That the contention of applicant that the so-called foundation development was economical, I am disposed to agree. There can be no doubt that eventually there will be an absorption of the power possible of development by this company and it seems reasonable to conclude that at the time of making expenditures in obtaining necessary lands for reservoir purposes and the building of a proper dam and other permanent structures future inevitable development should be prepared for.

No inventory or itemized valuation has ever been made of the plant of the applicant, and it would be impossible within any reasonable time to obtain such valuation. We have not, however, heretofore insisted upon an accurate valuation of existing property for purposes of deciding bond applications, contenting ourselves with a determination as to whether or not the entire outstanding indebtedness bears an improper relationship to what we can find from the evidence the approximate value of the property to be when viewed as a whole. Or in those cases where the outstanding bonded indebtedness is in excess of what we would permit if its affairs had been under our jurisdiction from the beginning of the enterprise we have sought to determine whether the proposed issue would place the enterprise in a better financial condition than it occupied before the issue was authorized. We have, however, held that no additional bonded indebtedness would be allowed to an enterprise which we considered to be practically insolvent. To be sure we have heretofore been considering the general relationship between the value of the property as a whole without regard to its efficiency and the outstanding bonded indebtedness. In the previous cases we have considered the relationship which might exist between the assumed reproduction value of the property and the outstanding obligations. I see no reason, however, why the placing of an enterprise in a better condition with respect to its efficiency should not likewise be given consideration, particularly if its efficiency is increased in a greater ratio by the expenditure of a certain amount of money than such expenditure increases its outstanding indebtedness. We have decided each case on its own facts, and on the facts in this case I am of the opinion that by the expenditure of the money which may be derived from the sale of these additional bonds, even having regard to the face of such bonds, which will be in excess of the amount to be realized from their sale, the efficiency of the plant of this company will be increased in a much greater proportion than is its bonded indebtedness. To illustrate this condition concretely let us consider the case where in a hydro-

electrical enterprise excessive dams have been built and one unit for power purposes installed. Let us assume that the cost of the dam is equal to the cost of constructing the necessary facilities for producing three units of the size of the one already installed, then to produce the first unit we will have an entire expense four times as great as will be necessary to duplicate the capacity of the plant by the addition of the second unit, and likewise the third and fourth. The Commission should not be understood as laying down a general rule, but in this specific case I am of the opinion that by the expenditure of the money to be derived from the bond issue applied for there will be greater security behind not only the additional bonded indebtedness herein authorized, but behind the bonded indebtedness already outstanding. In other words, in my opinion from the facts presented in the evidence in this case, the applicant will be very much better off financially and its obligation have a greater actual value behind it by the granting of this application than now exists.

It is proposed to build a dam which will impound water estimated capable of producing 500,000 horsepower of electrical energy. There will be immediately installed a unit power plant which will produce 20,000 kilowatts, and distribution facilities in the amount of \$709,195 and \$362,602 improvements to service.

The purposes stated in the application for which the money to be derived from the sale of these bonds is to be expended are as follows:

(a) Extensions for revenue, including construction of distribution lines and of service connections to consumers in the Counties of Alameda, Contra Costa, Sacramento, Solano, Sonoma and Napa and in the Cities and Towns of San Lorenzo, Oakland, Berkeley, Oak Park, Sacramento, Sebastopol, Napa Junction, Suisun, Fairfield, Napa, Santa Rosa and Dixon - - - - - \$ 709,195.00

(b) Improvements to service, including construction of 15 miles of 100-k.v. transmission lines from Moraga Valley to the South side of Carquinez Straits, a substation at the Carquinez end of said line; a 22,000 volt tie line between Valona and Richmond; transformer sets at Richmond; six miles of secondary circuit on Richmond feeder; primary extensions and transformers at Oakland; regulators with line drop compensators at Oakland substation; an additional armored cable beneath the waters of San Francisco Bay; an auxiliary 22-k.v. line from Napa to Santa Roca; a second 22-k.v. cir-

cut from Carquinez Straits to Napa; and an additional 22-k.v. armored cable beneath the waters of Carquinez Straits; a synchronous condenser at Oakland; and the installation of a 4000-k.w. motor generator set at Fruitvale - - - \$362,602.00

(c) Extensions Big Bend Power House by completing installation of units 5 and 6, including the purchase and installation of such electrical apparatus not now in place as will increase the capacity of the Big Bend Power House from 40,000 to 60,000 k.w. Of this construction work on the Big Bend Extension, trenches for penstocks 5 and 6, and the pit for the substructure of the power house have been partially excavated, and the concrete work in the front and end walls for the ultimate power house extension up to an elevation of 473.5 has been completed. The cost of the work so far completed, as of December 1, 1912, has been \$155,661.34, all of which sum was expended subsequent to January 1, 1912 - - - - - 639,627.00

(d) Completion Big Meadows Dam and Reservoir, including the cost of the completion of said dam now in course of construction of a type known as the gravity section - - - - - 1,607,635.00

(e) Acquisition of land in Big Meadows Reservoir Site, including land in the Big Meadows reservoir site, not now owned by your applicant, and which your applicant estimates may be acquired for the aggregate sum set opposite this item - - - - - 200,000.00

(f) Other additions to property, including three 250-k.w. transformers and additional switching equipment at Brighton substation; four 250-k.w. transformers and feeder switchboard at Clayton substation; one 100-k.v. switch at Cowell substation; sidewalks, street assessments and sewer assessment at Napa substation; Petaluma district warehouse, Petaluma garage building; equipment for permanent Napa district office; and a cable barge for use on San Francisco Bay - - - - - 23,819.00

(g) Reimbursement of moneys expended from income for the payment of interest on Big Meadows lands on "up-river" development, and on a part of development at Big Bend for period of 3-1/2 years prior to December 31, 1912, interest on said lands and development during 1913 - - - - - 679,905.00

(h) Reimbursement of moneys heretofore expended from income for purposes properly chargeable to capital account; payment of obligations heretofore incurred for additions to plant, etc., including the difference between the cost of certain additions to property and construction work acquired or performed during the months of September, October and November, 1912, and the amount of money derived from the sale of bonds

on deposit with the Trust Company available for meeting the cost of such property and construction. That of said sum set opposite this item, a part has been paid by applicant from moneys derived from income, while a part remains due and unpaid - - - - - \$ 280,783.00

- (f) Antioch substation - - - - - 46,036.00
- (j) Sacramento substation - - - - - 20,900.00
- (k) Balfour-Guthrie Extension - - - - - 16,200.00
- (l) Antioch Bowers, tie line - - - - - 10,000.00
- (m) Antioch-Sherman Island tie line - - - - - 9,000.00
- (n) Antioch-Nichols Circuit - - - - - 9,000.00
- (o) Island Division Extension - - - - - 35,000.00

Item "g" may be at once eliminated from consideration because since the filing of this application, revised estimates of the cost of the Big Meadows Dam have been filed with this Commission, which, because of a change in the type of dam proposed to be built, to the gravity section type, involve an expenditure of such an additional amount that taken together with the other items, exclusive of item "g", for which money derived from the sale of these bonds is to be expended, will necessitate the use of practically all of the money derived from the sale of all of the bonds herein asked to be authorized.

Applicant claims total operating revenues for 1912, ending December 31, of \$2,409,600.95 and a total net surplus of \$264,705.97, after deducting operating expenses, interest and other fixed charges. I am unable to find that this is a true surplus because of the fact that it does not appear that a proper depreciation reserve has been set up and maintained and some of the items going to make up this claim of surplus are questionable from the standpoint of the Commission. However, I do find that there is sufficient total earning by applicant to carry its present obligations and while the bonds herein asked to

be issued will add to the burdens of applicant by some \$200,000 per year, the additional income which will in all probability result from the additional investment, will more than take care of this new burden. So that I find that there is every reasonable probability of the ability of applicant to carry its present and the proposed additional burden.

The trust deed under which applicant issues its bonds, provides that they shall be sold at not less than 90 per cent of their face value, and assuming that the bonds herein asked to be authorized were sold at that figure, there would be ten per cent of the face of these bonds represented by discount, and manifestly the property purchased with the money derived from the sale of these bonds would create the property against which it is proposed to issue these bonds. Hence, we will have ten per cent less of property produced than face of bonds should the Commission grant this application.

This ten per cent should be amortized or made up as soon as possible and the officers of applicant have announced to the Commission that it is their policy to divert surplus income into property, rather than to pay dividends therewith, and I recommend that this policy be anchored and made certain by a condition in the order providing that this ten per cent of bond discount shall be amortized or made up out of earning within a period of not more than ten years.

Furthermore, in view of the fact that the tremendous importance to the public and all concerned of the absolute stability of a dam which will be called upon to impound and hold back the enormous quantities of water to be produced at the Big Meadows Reservoir, and in view of the fact that applicant has voluntarily proposed a change in the type of dam from that heretofore intended, to the well known, established and time

tried gravity section dam, even though this will largely increase the cost, I recommend that the increase in the cost as shown by the amended estimates as filed by officers of applicant be allowed.

Applicant requests authorization to issue an amount of bonds of sufficient face value to produce the amount of money estimated to be necessary for the various purposes set out in the application. These estimates now amount to \$3,969,797, and if these bonds are sold at the minimum of 90 it would require \$4,411,000 face value of bonds to produce this amount. Hence, I recommend that applicant be authorized to issue \$4,411,000 face value of bonds to be sold at the minimum of 90, or so much thereof as may be found necessary for the purposes set in the order.

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

O R D E R

Application having been made to the Railroad Commission of the State of California by Great Western Power Company for an order authorizing the issue by said company of its first mortgage five per cent sinking fund 40-year gold bonds to an amount of the face value of principal of said bonds sufficient at the price at which said bonds may be sold to net \$3,969,797.

And a hearing having been duly held and it appearing to the Commission that the money to be secured by the issue of said bonds is necessary and reasonably required by said company for the discharge of its obligations, and the purchase, construction and acquisition of property, and that the purposes for which the proceeds of bonds are to be used are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that the Railroad Commission of the State of California does hereby authorize the issue by Great Western Power Company of not to exceed \$4,411,000 face value of first mortgage five per cent sinking fund 40-year gold bonds dated July 1, 1906, or so much thereof as may be necessary for the purposes set out herein.

Said bonds to be issued under and in pursuance of a mortgage and deed of trust dated July 1, 1906, executed by Great Western Power Company to Bankers Trust Company of New York and James N. Wallace, Trustee, a copy of which said mortgage and deed of trust is on file with the application herein, upon the following conditions, and not otherwise, to-wit:

1. Great Western Power Company shall sell the bonds hereby authorized so as to net said company not less than 90 per cent of the face value thereof plus accrued interest at the date of their delivery to the purchaser.

2. The proceeds from the sale of said bonds shall be used for the following purposes only:

G.M.O.	01 to 031, Extensions for Revenue Ex C	\$709,195.00
"	0101 to 0113, Improvements in Service	362,602.00
"	0301 Big Bend Extensions Ex E	639,627.00
"	0201 to 0208 Additions to Property Ex I	23,819.00
	Antioch substation (a)	46,036.00
	Sacramento substation (a)	20,900.00
	Balfour-Guthrie Extension (a)	16,200.00
	Antioch Bowers tie line (a)	10,000.00
	Antioch-Sherman Island tie line (a)	9,000.00
	Antioch-Nichols Circuit (a)	9,000.00
	Island Division Extension (a)	35,000.00
	Big Meadows Dam (a)	1,607,635.00
	Land Big Meadows Reservoir	200,000.00
	Capital charges etc (b)	280,783.00
		<u>\$3,969,797.00</u>

(a) Supplemental statement furnished subsequent to hearing.

(b) This was paid out of income. Desired to reimburse income to this amount with proceeds from bonds.

For a more particular description of the purposes for which the said money is to be used reference is had to the application and all of the exhibits and statements attached and on file herein.

3. The Big Meadows Dam shall be of some suitable gravity type, the plans and specifications for which shall be submitted to and receive the approval of the Commission before their final adoption by the company.

4. Should a general contract be let for the construction or superintendance of construction of said dam before the execution of such a contract the same shall be submitted to and receive the approval of this Commission.

5. Each job or unit of work shall be made up on standard general managers order forms (G.M.O.), copies of which shall be filed with the Commission; each G.M.O. shall contain the detailed estimates for the cost of the work in the usual form. Monthly reports shall be filed with the Commission showing the expenditures during the month upon each G.M.O.

6. As a condition precedent to the effectiveness of this order, Great Western Power Company shall submit for the approval of the Commission, an agreement subject to amendment or change on order of the Commission, running to the bondholders of said company, the original to be filed with the Trustee under the mortgage and trust deed hereinbefore mentioned, which said agreement shall in effect provide that beginning with the year 1914, there shall be invested in the properties of said company or in the retirement of its outstanding bonds, a sum of money each year which will be equal to one-tenth of the amount represented by the discount on the bonds sold under this order, said money to

be paid out of income or from sources other than receipts from the sales of securities.

7. Said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of said bonds hereby authorized to be issued, and on or before the 25th day of each month the company shall make a verified report to the Commission, in accordance with the Commission's General Order No. 24, stating the sale or disposition of such bonds during the preceding month, the terms and conditions of such sale or other disposition, the moneys realized therefrom and the use and application of such moneys.

8. The authority hereby given to issue such bonds shall apply only to bonds issued by said company on or before the 1st day of March, 1914.

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 11th day of March, 1913.

John W. Ashleman
H. D. Loveland
Alvin G. Anderson
Max Thelen
Edwin O. Edgerton
Commissioners

Railroad Commission State of California
No. 2705-1001
MAR 17 1913
BY A. M. Macpherson
Assistant Secretary

3 Copies to Mr. Hall.
Rollin G. ...