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ORIGINAL

Decision No. _____

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

Decision No. 6048

In the Matter of the Application)
of HAWTHORNE ELECTRIC AND WATER)
COMPANY, a corporation, for au-)
thority to issue bonds.)

Application No. 1276

Wm. L. Jarrett, for applicant.

EDGERTON, Commissioner.

FIRST SUPPLEMENTAL OPINION

In its amended petition filed in the above-entitled matter, Hawthorne Electric and Water Company asks authority to issue \$25,000.00 face value of 6 per cent. bonds for the purpose of paying its existing unsecured indebtedness and to execute a deed of trust to secure the payment of said bonds.

In the amended petition, filed August 11, 1917, applicant calls the Commission's attention to Decision Number 1934, dated November 13, 1914 (Vol. 5, Opinions and Orders of the Railroad Commission of California, page 715).

The earnings of the company have been inadequate to pay interest on all of its indebtedness and provide for adequate depreciation. Applicant reports notes payable in the sum of \$32,570.35 and accrued interest amounting to \$4,954.50.

This indebtedness is payable to U. M. Thomas, who on or about June 20, 1916, acquired all of applicant's outstanding capital stock except two shares necessary to qualify directors. He proposes to cancel all of the indebtedness provided the company issue to him \$25,000.00 of 6 per cent prior lien bonds. Applicant asks the Railroad Commission to grant it authority to convert an unsecured indebtedness held by the principal stockholders into a bonded debt, the payment of which is to be secured by a mortgage permitting the issuance of only \$25,000.00 face value of bonds.

U. M. Thomas submitted to the Commission a statement in which he estimated the operating revenue for 1917 at \$7,200.00 and the operating expenses including taxes and interest on \$25,000.00 of bonds at \$3,820.89. In his statement, he makes no allowance for depreciation, while his estimated operating expenses are far below what the company reported to this Commission during the years 1914, 1915 and 1916.

The desire of the principal stockholder to convert an unsecured indebtedness into a secured indebtedness, and thus place himself in a position, so that he can more readily withdraw from the active affairs of the company does not alone justify the issue of bonds, which are a fixed interest bearing obligation of the utility. It should be borne in mind that this issue of bonds would exhaust practically all of the possibility of further financing this company, and this would be a dubious procedure where the only purpose accomplished was to change the relationship of the principal stockholder and creditor to the property. Did the application involve the sale of the properties to a larger company which could provide further financing, it might well be that the purchasing company should be permitted to issue bonds to finance in whole or in part the purchase of these properties. This situation is however not presented by this application. Moreover applicant has not made a convincing showing of its ability

to pay interest and sinking fund on bonds proposed and adequately provide for depreciation.

Inasmuch as I believe this application should be denied, it becomes unnecessary to refer to the provisions of applicant's proposed deed of trust.

I herewith submit the following form of Order:-

FIRST SUPPLEMENTAL ORDER

HAWTHORNE ELECTRIC AND WATER COMPANY having applied to the Railroad Commission for authority to execute a mortgage and to issue \$25,000.00 face value of 6 per cent. bonds,

And a hearing having been held and the Railroad Commission being of the opinion that this application should be denied,

IT IS HEREBY ORDERED that the application of Hawthorne Electric and Water Company for authority to execute a mortgage and to issue \$25,000.00 face value of 6 per cent. bonds be, and the same is hereby, denied.

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

Dated at San Francisco, California, this 17th day of January, 1918.

Max Shelen

H. D. Loveland

W. L. Gordon

Edwin D. Edwards

Frank P. K. Perkins
Commissioners.