

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

-----

In the matter of the application of	)	
Peoples Water Company, a corporation,	)	
for an order authorizing issue of	)	Application No. 381
notes and issue and pledge of bonds	)	
as collateral security therefor.	)	

Edward W. Engs for applicant.

EDGERTON, COMMISSIONER.

O P I N I O N

This is an application for an order authorizing Peoples Water Company to issue its promissory notes from time to time during the period of one year next succeeding the date of the order, in amounts not exceeding in the aggregate the sum of \$1,250,000, and authorizing the issue and pledge as security for the payment of said notes, applicant's general mortgage five per cent thirty-year gold bonds in such an amount as the Commission may direct.

The condition of the capitalization of applicant is set out in Opinion and Order No. 129, wherein applicant was authorized to issue its promissory notes for \$500,000, with interest at seven per cent per annum, and to issue \$1,500,000 face value of bonds to pledge as collateral security for the payment of said notes.

That order was made on the 20th day of July, 1912, and permitted such issue of notes and bonds for a period to and including the 30th day of October, 1912, and thereafter on the 18th day of October, 1912, an order was made extending said time to January 28, 1913, and thereafter on the 15th day of January, 1913, an order was made extending said time to the 28th day of April, 1913.

At the time of the original order, applicant had outstanding promissory notes, aggregating \$500,000, payment of which it was expected would be demanded within ninety days. There was pledged as collateral security for the payment of these notes, bonds approximating \$1,500,000 face value. These notes and bonds were outstanding on March 23, 1912, at which time the Public Utilities Act went into effect, and it was necessary, in order to refund this indebtedness and to pledge bonds as security therefor, to obtain the authorization of this Commission. The Commission granted the request because it was shown that it involved a continuation of the then condition of the corporation, and that to compel the sale of the bonds for the purpose of paying off this indebtedness would work an injury to the corporation, because the bonds would bring a price not in excess of seventy-five per cent of their face value. Thereafter, it was found that payment on the notes outstanding was not demanded within the time fixed by the Commission, and the effective time was extended in order to take care of the notes as payment thereon was demanded.

It appears that applicant has outstanding notes, falling due within a year, of \$991,166, secured by bonds pledged as collateral, and that applicant has assumed to pay promissory notes in the amount of \$258,834, secured by mortgage on certain real property acquired by applicant, said indebtedness assumed by applicant being part of the purchase price of said property.

It is the purpose of applicant to refund, during the coming year, the first mentioned promissory notes, and to pay off the notes secured by mortgages aforesaid, by borrowing money through the issuance of the notes herein asked to be authorized, accompanied by the pledge of the bonds above mentioned.

Ordinarily I would not recommend to the Commission that a utility corporation be allowed to finance itself by borrowing money on promissory notes with a pledge of its bonds in large amounts

as collateral security for the payment thereof, but I find that this corporation is in a peculiar condition, warranting a departure from what would ordinarily be the rule.

Applicant has a water plant, supplying people with water in a number of towns and cities in the Counties of Contra Costa and Alameda, and is the owner of a large amount of real estate in those counties.

Negotiations are pending with a number of these towns for the purchase of the plant, or part of the plant, of applicant. The trust deed under which the bonds of applicant are issued does not provide that they may be called before their maturity. Upon a sale of the plant of applicant, or a portion thereof, to any town or community, it would be necessary to retire these bonds, upon terms fixed by the holders, and it might be that they would impose onerous conditions, resulting in an additional price necessary to be paid by the community purchasing such plant. There is the further consideration that these bonds could not be sold for anywhere near their par value <sup>and</sup> as the granting of this application will not increase the indebtedness of this company nor add to the amount of bonds pledged as collateral. I do not feel that the Commission would be warranted at this time in refusing permission to applicant to issue its notes and bonds as requested.

However, this method of financing should not be allowed to continue indefinitely, and applicant should be called upon within a reasonable time to present to the Commission some comprehensive plan by which its present short term obligations shall be converted into long term obligations, or that such obligations be retired, keeping in view the possibility of a sale of the plant, or parts thereof, to the public.

The money represented by all of these obligations, except those secured by mortgage as aforesaid, has been used for the purpose of acquiring property, building and extending plant, etc., which is

properly the subject of capitalization.

While the bonds herein asked to be authorized are to be issued only for the purpose of being pledged as collateral, it should always be considered that such bonds may become outstanding through foreclosure of the pledge. Hence, consideration should be given to the security back of such bonds in the event that they do become outstanding. It appears from a showing made in this matter, that there is a reasonable amount of property back of all of the bonds of applicant both outstanding and pledged as collateral. Therefore, I recommend that the application be granted, and I 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 Peoples Water Company for an order authorizing the issue by said company of promissory notes for a sum not to exceed in the aggregate, \$1,250,000, and authorizing said company to issue and pledge as collateral security for the payment of said promissory notes Peoples Water Company general mortgage five per cent thirty-year gold bonds, dated January 2, 1907, and secured by a mortgage and deed of trust executed by Peoples Water Company to Mercantile Trust Company of San Francisco,

And a hearing having been duly held and it appearing to the Commission that the money to be secured by the issue of said notes secured by the pledge <sup>of</sup> said bonds as aforesaid, is necessary and reasonably required by said company for the discharge of its obligations, and that the purposes for which the proceeds to be derived from the issuance of said promissory notes secured by the pledge of said 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 Peoples Water Company of its promissory notes bearing interest at not to exceed seven per cent per annum, for the aggregate sum of \$1,250,000, or so much thereof as may be necessary for the purposes herein stated, and the Railroad Commission of the State of California does hereby authorize the issue by Peoples Water Company of Peoples Water Company general mortgage five per cent thirty-year gold bonds in an amount not to exceed \$3,125,000, said bonds to be issued under and in pursuance of the terms of a mortgage and deed of trust dated January 2, 1907, executed by Peoples Water Company to Mercantile Trust Company of San Francisco, a copy of which said mortgage and deed of trust is on file with the application herein, upon the following conditions, and not otherwise:

1. Peoples Water Company shall realize the full face value of the promissory notes hereby authorized and the proceeds derived therefrom shall be used only for the purpose of paying its indebtedness, as evidenced by a list of obligations on file herein, reference to which is hereby made, and for the purpose of paying off and discharging the obligations evidenced by promissory notes and secured by mortgages on certain specified real property, which said promissory notes and mortgages are described in a list on file herein, to which reference is hereby made.

2. Said promissory notes shall bear interest not to exceed seven per cent per annum.

3. The bonds hereby authorized shall be issued and used solely as a pledge for securing the payment of the said promissory notes and they shall be issued as such security upon a basis of not to exceed two and a half times the face value of bonds to the face value of promissory notes, and immediately upon payment of said promissory notes, or the discharge of said bonds, or any part thereof, from the obligations of said pledge, said bonds shall be returned to the treasury of Peoples Water Company

and shall not thereafter be issued except upon the order of the Railroad Commission of the State of California.

4. Said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds derived from the issuance of said promissory notes 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 disposition of such promissory notes during the preceding month, the moneys realized therefrom, and the use and application of such moneys, and a like report of the disposition of the bonds herein authorized to be issued and pledged.

5. The authority hereby given to issue said notes and said bonds shall apply only to notes and bonds issued by said company on or before the 30th 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 28<sup>th</sup> day of March, 1913.

John W. Eckman  
H. H. ...  
...  
Edward D. Edgerton

Commissioners.

Railroad Commission State of California

File # 2062100  
APR 9 1913  
H. H. ...  
BY H. H. ...  
Assistant Secretary.