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Decision No. _____

5376

ORIGINAL

Decision No. 5376

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 SIERRA AND SAN FRANCISCO POWER COMPANY,
 a corporation, for an order authoriz-
 ing the issuance of first mortgage
 bonds of the face value of \$1,000,000.00)
) Application No. 3601.

Chickering & Gregory by Warren Gregory, for applicant.

DEVLIN, Commissioner.

O P I N I O N

SIERRA AND SAN FRANCISCO POWER COMPANY asks au-
 thority to issue \$1,000,000.00 of its first mortgage 5 per cent
 forty-year gold bonds payable August 1, 1949. If applicant is
 unable to sell the bonds, it proposes to pledge the same to secure
 the payment of indebtedness incurred or to be incurred. Appli-
 cant proposes to issue the bonds for the purpose of reimbursing
 its treasury for capital expenditures prior to February 28, 1918.
 After such reimbursement it intends to use the funds obtained
 through the issue of the bonds to pay for the improvements referred
 to in its Exhibits Numbers One, Two and Three, to increase its
 hydro-electric generating capacity or for such other purposes as
 the Railroad Commission may authorize. I will hereafter refer
 to applicant's proposed expenditures.

Applicant's annual reports for the years ending December 31, 1915, 1916 and 1917, on file with the Railroad Commission show revenues and expenses as follows:

I t e m	1 9 1 5	1 9 1 6	1 9 1 7
ELECTRIC OPERATIONS:			
Operating Revenues	\$1,227,825.97	\$1,366,809.86	\$1,475,028.43
Operating Expenses	489,592.91	481,186.59	582,109.21
Net Operating Revenues	738,233.06	885,623.27	892,919.22
WATER OPERATIONS:			
Operating Revenues	37,281.63	39,018.50	42,365.93
Operating Expenses	23,104.64	24,963.32	25,385.25
Net Operating Revenues	14,176.99	14,055.18	16,980.68
Total Net Operating Revenues	752,410.05	899,678.45	909,899.90
Non Operating Revenues:			
Miscellaneous Rents -Electric	339.00	1,925.50	1,720.50
Miscellaneous Rents -Interest	13,532.01	36,480.77	29,017.72
Miscellaneous Rents -Water	-	-	-
Other Non-Operating Revenues	2,617.08	3,302.96	2,085.49
Total Non-Operating Revenues	16,488.09	41,709.23	32,824.71
Gross Corporate Income	768,898.14	941,387.68	942,724.61
Deductions:			
Uncollectible Bills	3,805.66	805.75	3,907.19
Interest accrued on Funded Debt	764,288.80	816,483.34	858,150.00
Total Deductions	768,094.46	817,289.09	862,057.19
Profit carried to CORPORATE: SURPLUS ACCOUNT	803.68	124,098.59	80,667.42

The 1915 electric operating expenses include \$69,779.20, the 1916 include \$71,834.84 and the 1917 -\$74,647.72 allowed for depreciation. The operating expenses for the water department include no allowance for depreciation except \$1,824.07 in 1917.

On December 31, 1914, applicant reported an accumulated deficit of \$390,538.62. Through the increase of its operating revenues and surplus earnings, applicant has been able to reduce within the three year period its accumulated deficit to \$215,885.10.

The balance sheet of Sierra and San Francisco Power Company as of December 31, 1917, shows the following:

ASSET ACCOUNTS:-

Investment in Fixed Capital,	\$36,397,509.23
Electric Department,	\$35,621,397.19
Water Department,	<u>776,112.04</u>
Cash,	175,334.32
Special Deposits,	320,848.92
Notes Receivable,	223.25
Due from Consumers and Agents,	432,944.37
Miscellaneous Accounts Receivable,	17,588.86
Materials and Supplies,	201,193.46
Treasury Securities,	37,000.00
Prepaid Expenses,	49,642.18
Prepaid Rents -Credit,	\$ 16.74
Prepaid Insurance,	2,319.81
Other Prepayments,	<u>47,339.11</u>
Unamortized Discount on Bonds,	143,142.09
Other Suspense,	3,757.18
Reclamation District Warrants,	248.52
Corporate Deficit,	<u>215,885.10</u>
TOTAL ASSET ACCOUNTS,	\$37,995,317.48

LIABILITY ACCOUNTS:

Stock Outstanding,	\$20,000,000.00
Funded Debt,	17,000,000.00
First Mortgage,	\$ 7,500,000.00
Second Mortgage Series "A",	1,000,000.00
Second Mortgage Series "B",	<u>8,500,000.00</u>
Accounts Payable,	171,641.59
Audited Vouchers and Wages Unpaid	154,104.17
Consumers Deposits,	5,219.77
Miscellaneous Accounts Payable	<u>12,317.65</u>
Interest Accrued,	156,250.00
Taxes Accrued,	40,003.92
Reserve for Accrued Depreciation,	294,210.35
Casualty and Insurance Reserves,	19,337.70
Interest Matured,	<u>313,873.92</u>
TOTAL LIABILITY ACCOUNTS,	\$37,995,317.48

It will be noted that under its asset accounts, applicant reports special deposits amounting to \$320,848.92. This item includes \$313,873.92 deposited with the trustees under applicant's first and second mortgage to pay matured interest coupons reported by applicant under liability accounts in the amount of \$313,873.92.

Applicant in its Exhibit Number One, as explained at the hearing, reports that it will have to expend \$133,257.34 to complete construction work in progress on March 31, 1918. In Exhibit Number Two, applicant reports the balance required to complete construction requisitions pending at \$63,623.94, while in Exhibit Number Three, it reports \$463.03 expended on jobs in suspense, for which amount there have been no requisitions. The items reported in Exhibits Number One, Two and Three aggregate \$197,344.31. The \$197,344.31 includes an expenditure of —

\$29,637.34 necessary to complete the installation of turbine at North Beach;

5,150.40 to complete the installation of "Cable North Beach to Turk and Fillmore sub-station";

7,098.20 for "Turk Street changes",

1,501.91 for "Constructing 11 K.V. pole line from North Beach to Mason and Washington";

3,442.00 for "Interconnection of power systems at North Beach;

5,254.00 for "Cable for Universal Gas and Electric Company, Turk Street to California Street";

making a total expenditure for improvements to property located in San Francisco of \$52,083.85. The cost of construction work in progress and requisitions pending outside of San Francisco, together with expenditures incurred for which no requisitions have been made

aggregates \$145,258.46. Of this amount, applicant proposes to expend --

\$12,311.85 to complete a substation at Copperopolis;
3,995.97 to complete a substation at Manteca;
20,759.84 to complete a substation at Modesto;
18,555.81 to complete a substation at Bethany;
7,502.10 to build a substation at Oakdale;
14,080.20 to increase the capacity of the Stanislaus flume;
15,000.00 for the Indian Creek diversion;
15,071.70 to complete the Manteca-Bethany line;

leaving a balance of \$37,982.99, which represents the amount estimated as necessary to complete distribution lines and other improvements.

Applicant's plans for the increase of its hydro-electric generating capacity contemplates the addition of a penstock to the existing Stanislaus plant, the enlargement of the present flume, the installation of an additional plant known as the Upper Stanislaus plant, enlargement of the diversion ditch from the South Fork of the Stanislaus River to the forebay of the proposed plant, and the construction of an additional reservoir known as Big Dam on the South Fork of the Stanislaus River.

Mr. H.F. Jackson, President of Sierra and San Francisco Power Company, estimates the cost of all of these improvements at approximately \$2,500,000.00.

The testimony shows that the total peak load on the company's system at the present time exceeds its hydro generating capacity by approximately 10,000 K.W. and that the energy output of its existing hydro-electric plants is utilized completely.

There is no doubt that the Sierra and San Francisco Power Company should have more hydro-electric plant capacity developed and more electric energy available.

The Gas and Electric Division of the Railroad Commission has made an analyses of the proposed developments suggested by the company and has suggested certain developments which would materially add to the present output of the plants both in peak capacity and kilowatt hour production at a comparatively low cost.

The company's present Stanislaus plant is limited in its peak capacity and output by the capacity of the penstocks installed, which are operated at low efficiency. By the addition of a third penstock to the existing Stanislaus plant at an estimated cost of \$150,000.00, the peak capacity of that plant could be increased 3200 K.W. by a reduction in the present excessive losses in the existing penstocks. This reduction would cause an increase in the plant output of approximately 13,000,000 K.W.H. per year with a resulting oil conservation of at least 60,000 barrels of oil per year. This work should be completed by the spring of 1919.

The company at present diverts water from the South Fork of the Stanislaus River to the North Fork by a ditch some five miles in length known as the Philadelphia Ditch. In this diversion, water at the present time flows down the mountain side a distance of 1-1/4 miles through a ~~grad~~ drop of 1860 feet. With the present storage available, the average flow throughout the year will approximate 25 or 30 second feet. It is recommended that at the present time Sierra and San Francisco Power Company install a 5000 K.W. plant utilizing this natural drop. This development can be made by the fall of 1919 if work is commenced this summer. This will produce an annual energy output of 25,000,000 K.W.H.

The ultimate development planned for the Upper Stanislaus plant is 9,000 K.W. However, this development would not be necessary until the company has enlarged its storage capacity on

the South Fork of the Stanislaus River. It is estimated that the plant, to a capacity of 5000 kilowatts, could be constructed for approximately \$450,000.00 and that the completed 9000 K.W. plant would cost in the neighborhood of \$600,000.00.

The third recommendation of the Commission's engineers is that applicant increase the capacity of its present Stanislaus flume, by which, during the flood water period, applicant could obtain an additional supply of 50 second feet to the present plant. The cost of making this improvement is taken care of in applicant's Exhibit Number Two.

The developments suggested will increase the capacity of the company's hydro-electric plants 10,000 kilowatts in peak and will add to the output between 35,000,000 and 40,000,000 kilowatt hours per year. I recommend that applicant proceed with the construction of the improvements referred to in its Exhibits Number One and Two; with the installation of an additional penstock at its Stanislaus plant; with the installation of its Upper Stanislaus plant along the lines indicated above and out of the proceeds from the issue of the bonds pay for the improvements referred to in its Exhibit Number Three. This recommendation is made on the assumption that the company will be able to sell \$1,000,000.00 of bonds, or otherwise obtain funds to complete the work herein outlined. I believe that only such units of work should be started as applicant will be able to complete without suspending work on account of lack of funds.

The construction of the Big Dam reservoir located on the South Fork of the Stanislaus River should, in my opinion, be held in abeyance for the time being. The cost of this dam is estimated at \$900,000.00. The proposed reservoir will have a storage capacity of 16,500^{acre} feet. It is located above the proposed Upper Stanislaus plant and the water would be available for

utilization through the two Stanislaus plants and increase the company's output of hydro-electric energy approximately 35,000,000 kilowatt hours per year.

In its decision of October 24, 1916, (Vol. 11, Opinions and Orders of the Railroad Commission of California, page 693) the Railroad Commission referred to the history of Sierra and San Francisco Power Company and called attention to some of the provisions of the company's first and second mortgages.

Applicant in its Exhibit Number Six reports the cost of its properties at \$14,611,282.96. In Exhibit "A", attached to the petition herein, applicant reports \$7,500,000.00 5 per cent first mortgage, \$1,000,000.00 of Series "A" 6 per cent second mortgage and \$8,500,000.00 of Series "B" 5 per cent second mortgage bonds as outstanding. As a matter of fact \$37,000.00 of the Series "B" bonds are in the company's treasury, leaving \$8,463,000.00 not in the possession of the company.

It appears that applicant's second mortgage permits the company to issue a total of \$30,000,000.00 of first mortgage bonds. Mr. H. F. Jackson, president of the Sierra and San Francisco Power Company, testified that the company in proposing to issue at this time \$1,000,000.00 of its first mortgage bonds will violate none of the rights of the second mortgage bondholders, and that in its proposal to issue additional first mortgage bonds, the company is carrying out the plan that was made and agreed to by the Protective Committee of the second mortgage bondholders at the time the company was organized.

Applicant in its amended Exhibit "H", Application Number 2586, reported capital expenditures to August 31, 1916 amounting to \$1,270,962.62. To reimburse its treasury because of these expenditures the Railroad Commission on October 24, 1916 authorized applicant to issue \$1,000,000.00 of its first mortgage 5 per cent

bonds at not less than 85 per cent of their face value, plus accrued interest, provided that the company after reimbursing its treasury would use the proceeds from the sale of the bonds for capital purposes. The \$850,000.00 obtained through the issue of the \$1,000,000.00 of bonds has, according to the reports of the company, been expended for capital purposes. Adding to the expenditures reported in Exhibit "E", Application Number 2586, the capital expenditures of applicant reported from August 31, 1916 to February 28, 1918, makes a total of \$2,274,982.77. Deducting from this amount the \$1,000,000.00 of bonds issued pursuant to the Commission's decision of October 24, 1916, leaves a balance of \$1,274,982.77. Applicant under its first supplemental mortgage may issue bonds equal to 80 per cent of its capital expenditures.

As said above, applicant now asks authority to issue \$1,000,000.00 of first mortgage bonds to reimburse its treasury in part for capital expenditures prior to February 28, 1918. After such reimbursement it proposes to use the funds obtained through the issue of said \$1,000,000.00 of bonds for such purposes as the Commission may authorize. In general I believe that the funds obtained through the issue of the bonds should be used to finance the construction work referred to above.

Applicant asks permission to sell or pledge the \$1,000,000.00 of bonds it desires to issue. While reference was made at the hearing to the issue of serial notes, the payment of which is to be secured by the pledging of bonds, the issue of these notes is not now before the Commission. In view of the testimony in this proceeding I do not believe it necessary for the Commission at this time to pass upon the question of pledging the bonds to secure the payment of indebtedness.

I herewith submit the following form of Order:-

O R D E R

SIERRA AND SAN FRANCISCO POWER COMPANY having applied to the Railroad Commission for authority to issue \$1,000,000.00 of its First Mortgage 5 Per Cent 40-Year Gold Bonds, payable August 1, 1949, 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 such issue is reasonably required for the purpose or purposes specified in the Order and that such purpose or purposes are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that Sierra and San Francisco Power Company be, and it is hereby, granted authority to issue \$1,000,000.00 of its First Mortgage 5 Per Cent 40-Year Gold Bonds, payable August 1, 1949, upon the following conditions:-

1.-The bonds herein authorized to be issued shall be sold by applicant for not less than 80 per cent of their face value, plus accrued interest.

2.-The bonds herein authorized to be issued shall be used by applicant to reimburse its treasury in part for capital expenditures incurred prior to February 28, 1918, and after such reimbursement, all funds obtained through the issue of the bonds shall be expended only for such purposes as authorized by the Commission in a supplemental order or orders herein, it being understood that in general the funds obtained from the issue of the bonds will be used for the purpose of financing the improvements referred to in the foregoing Opinion.

3.-Sierra and San Francisco Power Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds from the sale of

the bonds herein authorized to be issued and on or before the twenty-fifth day of each month the company shall make verified reports to the Railroad Commission as required by the Commission in its General Order No. 24, which order, in so far as applicable, is made a part of this order.

4.-The authority herein granted shall not become effective until applicant has paid the fee prescribed by the Public Utilities Act.

5.-The authority herein granted shall apply only to such bonds as may be issued on or before December 31, 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 2d
day of ^{May} April, 1918.

Max Heber

Alfred Gordon

Edwin A. Egan

Francis R. DeWitt

Commissioners.

Fee paid on Dec 9173
2nd Sup. Order

(initials)