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ORIGINAL

Decision No. 6077

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application
of SOUTHERN CALIFORNIA EDISON COM-
PANY for authority to issue certain
bonds and debentures.

} Application No. 4310.

Harry J. Bauer, for applicant.

EDGERTON, Commissioner.

O P I N I O N

Southern California Edison Company asks authority to issue \$8,000,000. of its general and refunding 25-year 6 per cent bonds due January 1, 1944; \$8,000,000. of 10-year 7 per cent serial debentures and to execute an agreement defining the terms and conditions under which the debentures may be issued.

Southern California Edison Company general and re-funding bonds in the sum of \$10,000,000. mature July 1, 1919. In addition the company reports in Exhibit No. "g", notes payable amounting to \$6,078,592.98. It is for the purpose of paying and refunding the \$10,000,000. of bonds and part of the notes payable that applicant desires to sell \$8,000,000. of general and refunding bonds and

\$8,000,000.00 of debentures. If the bonds are sold at 93 and the debentures at 95, the company will realize the sum of \$15,040,000. Of this money, \$10,000,000. will be used to redeem the bonds due July 1, 1919, and the remainder, - \$5,040,000. applied to the payment of short term notes.

The issue of the \$10,000,000. of bonds, due July 1, 1919, was authorized by Decision Number 4468, dated July 19, 1917, (Vol. 13, Opinions and Orders of the Railroad Commission of the State of California, page 502). There is no question about the propriety of paying or refunding the \$10,000,000. of bonds through the issue of bonds and debentures, as shown in the record in this proceeding.

The use of part of the proceeds from the sale of debentures, to pay notes, is justified by officers of applicant on the ground that the uncapitalized expenditures on December 31, 1918 amounted to \$5,159,619.72. In Exhibit Number Two, applicant reports:-

Balance of Capital Expenditures to September 30, 1917 for which no securities had been issued - as shown in Application #2743, Decision #4801	\$3,885,019.84
Amount expended for Additions and Betterments to Physical Plant:	
Oct. 1, 1917 to Sept. 30, 1918	\$4,611,418.53
Less Ventura County Power Co. Purchase. <u>1,464,864.46</u>	3,146,554.07
Amount expended for Additions and Betterments to Physical Plant October to December, inclusive, 1918..	218,516.16
Amount expended by Ventura County Power Company subsequent to October 31, 1916, and until the date of the consolidation of its properties with Southern California Edison Company November 30, 1917	77,768.10
Additional Cost of Mt. Whitney Power & Electric Corporation Stock	17,949.88
Increase in Material and Supplies since June 1, 1917 ...	173,330.84
Advances to System Corporation since June 1, 1917 (Santa Barbara Gas & Electric Company and Mt. Whitney Power & Electric Company)	<u>883,205.93</u>
Total Amount of Uncapitalized Expenditures Carried Forward	\$8,402,344.82

Amount Brought Forward	\$8,402,344.82
2,000 Shares Mt. Whitney Power & Electric Company Preferred Stock issued account purchase Lacey Co. properties	<u>169,748.98</u>
Total	\$8,572,093.80
<u>L E S S:</u>	
Amount withdrawn from Advance Construction Account	
Total amount withdrawn	\$3,000,000.00
Less included in statement filed in Application #2743, referred to above ...	<u>925,704.35</u>
	2,074,295.65
Proceeds of common stock sold -Dec.4801..	<u>1,338,178.43</u>
Total Deductions	<u>3,412,474.08</u>
B a l a n c e	\$5,159,619.72

The engineering department of the Railroad Commission finds the expenditures of applicant, because of additions and betterments to its plant, reasonable. As reported in Exhibit Number Two, applicant has since June 1, 1917 advanced \$883,205.93 to system corporations - Mt. Whitney Power and Electric Company and Santa Barbara Gas and Electric Company. The testimony shows that the expenditures of these companies on capital account, since June 1, 1917, exceed the amount advanced by applicant. This is not a case of authorizing the issue of bonds against uncapitalized expenditures, but debentures which applicant expects to pay through the sale of common stock.

The \$8,000,000. of debentures are to be issued under an agreement to be executed to the Bankers Trust Company of New York. No copy of this agreement has been filed with the Commission. Until this is done, no final order can be made in this proceeding. As outlined at the hearing by A. N. Kemp, Controller of Southern California Edison Company and as shown by Exhibits filed in this proceeding, the debenture agreement is to provide for an issue of \$8,000,000. of debentures maturing at the rate of \$1,000,000. per annum from 1921 to 1928 inclusive. The payment of the debentures is unsecured. The debenture agreement will provide among other things, that the

\$8,000,000. of debentures will share in the security of any new mortgage made by the company, that is, in the security of any mortgage, the lien of which is junior to that of the mortgage of July 1, 1917; as such mortgage now exists, or as it may be at any time amended by supplemental agreements. Mr. Kemp, as well as Mr. Ballard, first Vice President of Southern California Edison Company, believe that the company will be able to pay and refund the debentures through the issue of its common stock.

It is urged that the Commission should authorize the issue of the bonds and debentures as applied for herein, for the reason that this is the first step toward placing the company in a financial condition to resume its development work and the building up of its property. Applicant's development program, covering a period of three years, calls for an estimated expenditure of \$18,945,000. The proposed hydro-electric plants, when completed, will produce, in a normal year, according to the testimony of Mr. Ballard, an additional 310,000,000 K.W.H. per annum, compared with the company's present total hydro-electric resources of 660,000,000 K.W.H. per annum. Officials of the company believe that payment and refunding of the \$10,000,000. of bonds, due July 1, 1919, and approximately \$5,000,000. of short term notes, will enable the company to issue additional bonds and sell common stock for the purpose of carrying out its three year construction program.

It is contended that the interest rate on the debentures, while admittedly a trifle high, should be contrasted with the rate for stock. The issue of the debentures is a temporary expedient. Applicant proposes to make every effort, and entertains considerable hope of success, to sell enough stock to retire all of the debentures. While the stock, at this time, can not be sold on as favorable terms as the debentures, it is believed that the price of the stock because of this refinancing and the proposed new development will increase in price, and cut down the net cost of money, to the company as time

goes on.

In Decision Number 5978, dated December 5, 1918, the Railroad Commission authorized applicant to renew for a period of one year or less, \$626,500.00 of notes. The notes issued pursuant to the authority granted in Decision Number 5978, should be paid or refunded through the issue of debentures herein authorized.

I herewith submit the following form of Order:

O R D E R

SOUTHERN CALIFORNIA EDISON COMPANY having applied to the Railroad Commission for authority to issue \$8,000,000. of bonds and \$8,000,000. of debentures, a public hearing having been held, and it appearing to the Commission that the money, property or labor to be procured or paid for by such issue is reasonably required for the purposes specified in the Order, which purposes are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that Southern California Edison Company be, and it is hereby, authorized to issue \$8,000,000. of its general and refunding 25-year 6 per cent bonds, due January 1, 1944, and \$8,000,000. of its 10-year 7 per cent serial debentures upon the following conditions and not otherwise:-

1.-None of the bonds or debentures herein authorized to be issued shall be issued until the Railroad Commission has approved the amendment to applicant's general and refunding mortgage, dated July 1, 1917, and the debenture agreement defining the terms and conditions under which the \$8,000,000. of debentures may be issued.

2.- The bonds herein authorized to be issued, shall be sold for not less than 93 per cent of their face value plus accrued interest and the debentures for not less than

95 per cent of their face value, plus accrued interest.

3.-The proceeds obtained from the sale of the bonds and debentures shall be used for the following purposes:-

(a)-The sum of \$10,000,000. to pay or refunding the \$10,000,000. of general and refunding bonds, due and payable July 1, 1919;

(b)-The sum of \$5,040,000. or such an amount of the proceeds as may remain after the payment of the aforesaid bonds, to pay in whole or in part the notes set forth in Exhibit No. "8", filed in this proceeding, it being understood that applicant will pay or refund the notes issued pursuant to Decision Number 5978, dated December 5, 1918.

4.-Southern California Edison Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds from the sale of the bonds and debentures 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's General Order No. 24, which order, in so far as applicable, is made a part of this Order.

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

6.-The authority herein granted shall apply only to such bonds and debentures as may be issued on or before October 1, 1919.

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 23^d day of January, 1919.

Edwin O. Edgerton

Frank R. Devlin

W. B. Bourdige

Dwight Martin

Commissioners.

