

Decision No. 6324

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
COAST VALLEYS GAS AND ELECTRIC COM-
PANY, a corporation, for an order
authorizing the issue of bonds of the
face value of \$125,000.00

)
) Application No. 4352.
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)

Chickering & Gregory, by Warren Gregory, for applicant.
W. F. Williamson for certain of the bondholders of
Monterey and Pacific Grove Railway Company.
Myrick & Deering and James Walter Scott for certain
other bondholders of Monterey & Pacific Grove
Railway Company.

LOVELAND, Commissioner.

O P I N I O N

Coast Valleys Gas and Electric Company asks authority
to issue \$125,000.00 of its first mortgage 6 per cent bonds, due
March 1, 1952. Applicant intends to use the proceeds from the
sale of the bonds to partially reimburse its treasury for expendi-
tures on capital account. After such reimbursement, applicant intends
to use approximately \$93,000.00 to pay its indebtedness due Sierra
and San Francisco Power Company, and the remainder to finance the
construction of extensions, additions and betterments to its plant.

Applicant reports its asset and liability accounts
as of December 31, 1948, as follows:-

ASSET ACCOUNTS:

Total Fixed Capital	\$ 1,289,506.74
Cash	37,864.79
Special Deposits	4,664.02
Accounts Receivable	39,861.01
Interest and Dividends Receivable	1,020.00
Miscellaneous investments	11,378.00
Material and supplies	32,907.25
Sinking Funds	9,270.00
Treasury Securities	2,000.00
Prepaid Expenses	9,604.57
Unamortized discount on stock	4,808,971.49
Unamortized discount on bonds	22,353.83
Other Suspense	1,981.98

Total Asset Accounts\$ 6,271,383.68

LIABILITY ACCOUNTS:

Common Stock Outstanding	\$ 3,000,000.00
Preferred Stock	2,000,000.00
Bonds Outstanding	900,000.00
Accounts payable	124,812.77
Interest accrued	18,000.00
Taxes accrued	5,017.47
Surplus billed in advance	750.00
Reserve for accrued depreciation	91,524.38
Casualty and insurance reserves	2,008.82
Bond interest matured (see contra)	1,020.00
Corporate surplus unappropriated	128,250.24

Total Liability Accounts\$ 6,271,383.68

Coast Valleys Gas and Electric Company was organized on March 18, 1912. The outstanding \$5,000,000.00 of stock was issued prior to the effective date of the Public Utilities Act. The company's balance sheet filed with the Commission shows discount on capital stock in the amount of \$4,808,971.49. No dividend has ever been paid on either the common or preferred stock of the company.

The operating revenues of applicant have increased from \$228,802.01 in 1915 to \$339,643.54 in 1918, while during the same period the amount available to pay interest and other deductions from gross corporate income increased from \$74,043.63 to \$84,170.13.

Applicant's reports filed with the Commission show revenues and expenses as follows:

I t e m	1915	1916	1917	1918
Operating Revenues -All Departments	\$228,802.01	\$253,450.66	\$293,555.52	\$339,643.54
Operating Expenses -All Departments	159,108.12	175,672.85	214,728.43	257,405.82
Net Operating Revenues	69,693.89	77,777.81	78,827.09	82,237.72
Other Income	4,349.74	1,012.89	1,183.44	1,932.41
Gross Corporate Income	74,043.63	78,790.70	80,010.53	84,170.13
<u>Deductions:</u>				
Uncollectible Bills	281.01	222.91	411.37	409.95
Interest on Funded Debt	54,000.00	54,000.00	54,000.00	54,000.00
Other interest	4,743.43	4,138.15	3,903.73	3,385.08
Amortization of discount	531.50	697.55	804.76	674.16
Miscellaneous	391.25	157.05	156.06	206.59
Total Deductions	59,947.19	59,215.66	59,275.92	58,675.78
Balance to Corporate Surplus Account	14,096.44	19,575.04	20,734.61	25,494.35
<u>Corporate Surplus Account</u>				
Surplus beginning of Year	86,444.73	59,787.67	78,204.50	100,816.34
<u>Additions:</u>				
Profit from Income Acct.	14,096.44	19,575.04	20,734.61	25,494.35
Miscellaneous	1,774.90	1,701.36	2,503.25	2,288.05
Surplus plus Additions	102,316.07	81,064.07	101,442.36	128,598.74
Deductions	42,528.40	2,859.57	626.02	348.50
Surplus End of Year	\$59,787.67	\$78,204.50	\$100,816.34	\$128,250.24

The \$42,528.40 of deductions from surplus in 1915 includes \$39,423.89, representing Monterey and Pacific Grove Railway Company notes and interest, considered uncollectible.

In Decision Number 4847, dated November 16, 1917, the Commission in fixing applicant's rates, -electric, gas and water,- and after reviewing the affairs of the corporation and referring to the appraisal of the properties and their original cost, used as a rate base, \$1,213,146.36. In addition, it allowed \$26,600 for cash

working capital, making a grand total of \$1,239,746.36. Since November 16, 1917, and prior to November 30, 1918, applicant reports that it has expended for additions and betterments the sum of \$77,921.71, which added to the rate base, makes a total of \$1,317,668.07. Against the \$1,317,668.07, applicant reports \$900,000 of bonds outstanding. The amount of bonds outstanding is \$417,668.07 less than the rate base fixed by the Commission in Decision Number 4847, plus the cost of additions and betterments since the date of that decision.

Applicant now asks permission to issue \$125,000 of additional bonds. The issue of these bonds is opposed by certain bondholders of Monterey and Pacific Grove Railway Company represented by W.F. Williamson, Myrick & Deering and James Walter Scott. The bondholders of the railway company contend that Coast Valleys Gas and Electric Company is liable for the payment of the railway company's bonds because of a contract of guaranty executed by Monterey County Gas and Electric Company, whose properties have been acquired by Coast Valleys Gas and Electric Company. Counsel for applicant, on the other hand, maintains that Coast Valleys Gas and Electric Company is not liable under the guaranty; that it purchased the properties free and clear of all encumbrances; that it paid full consideration therefor; that it never recognized any indebtedness under the guaranty and that if any one other than Monterey County Gas and Electric Company is liable under the guaranty, it is one of the intermediaries who owned the properties subsequent to their sale by the Monterey County Gas and Electric Company and prior to their purchase by the Coast Valleys Gas and Electric Company. The pertinent facts surrounding the issue of bonds by Monterey and Pacific Grove Railway Company and their guaranty by Monterey County Gas and Electric Company were reviewed by the Commission in Decision Number 2269, dated March 31, 1915, Application Number 1418, (Vol. 6,

Opinions and Orders of the Railroad Commission of California, pg.474).

In Application Number 1418, Coast Valleys Gas and Electric Company sought permission to issue \$100,000 of bonds. The Commission authorized the company to issue only \$10,000 of its bonds, basing such authority on the ground that the company should make some necessary extensions, the earnings from which would exceed the interest on the \$10,000 of bonds, and thus place the company in a stronger financial position to meet any possible liability under the guaranty of the railway company bonds. Authority to issue \$90,000 of bonds was withheld. Quoting from Decision Number 2269, application Number 1418:--

"In view of the facts as herein developed, I believe that the Coast Valleys Company should not be authorized by this Commission to increase its bonded indebtedness in any way that could be prejudicial to the rights which the holders of the outstanding bonds of Monterey and Pacific Grove Railway Company may have. If the parties in this matter can adjust their differences as to the responsibilities of the Coast Valleys Company for these bonds, either by friendly adjudication or through a recourse to the proper tribunal, the Coast Valleys Company may thereafter submit again to this Commission its application for the issue of its securities. As this Commission has been advised that an effort will be made to determine the issue of the liability either through general agreement or through recourse to the courts, I do not believe this Commission should at this time authorize the applicant to issue any more securities than would appear to be necessary at this time, or until the question of the liability has been determined."

It was intimated at the time Decision Number 2269 was rendered that the liability, if any, of the Coast Valleys Gas and Electric Company because of the guaranty would be determined at an early date. More than four years have elapsed and the matter is still unsettled. The Supreme Court of the State of California in a recent decision has held Monterey County Gas and Electric Company liable under the guaranty. No action has been brought against the

Coast Valleys Gas and Electric Company, nor is there anything in the record to indicate when such action will be initiated. In the meantime, Coast Valleys Gas and Electric Company has incurred obligations and has used its surplus earnings to pay for improvements. The amount expended since the filing of Application Number 1418 is reported at \$148,325.77. This expenditure has been made possible to a large extent by Sierra and San Francisco Power Company not insisting upon the prompt payment of its bills for power, material and supplies. The testimony shows that Coast Valleys owes the Sierra and San Francisco \$95,941.02 and that the Sierra Company cannot be expected to advance additional amounts to Coast Valleys until it is paid in part at least for power and materials furnished. Unless Coast Valleys is placed in a position whereby it can permanently refund some of its current indebtedness, representing expenditures on capital account, it is doubtful whether it can secure funds to pay for necessary extensions and improvements.

It is, of course, clear to all that the Commission cannot relieve the Coast Valleys from any liability under the guaranty executed by Monterey County Gas and Electric Company, if such liability exists. While in no way passing upon such liability, but even assuming that such liability does exist, I believe that this application should be granted. The records show that there are \$270,000 of Monterey and Pacific Grove Railway Company bonds outstanding. Of the \$270,000, Coast Valleys Gas and Electric Company owns \$72,000, leaving \$198,000 owned by the public. The \$270,000 of bonds constitute a lien on the properties of the railway which properties no doubt have some value. The Coast Valleys, assuming that it is liable under the guaranty, would therefore at the most be liable only for the difference between the face value of the \$198,000 of bonds held by the public and the interest accrued thereon, and the amount realized from the sale of the Monterey and Pacific Grove Railway Company properties.

Adding to the rate base (\$1,239,746.36) used in Decision Number 4247 dated November 16, 1917, the cost of additions and betterments (\$77,921.71) makes a total possible rate base of \$1,317,668.07. Against such possible rate base, the Coast Valleys has now \$900,000 of bonds outstanding and asks permission to issue \$125,000 additional, making a total of \$1,025,000, an amount which is \$292,668.07 less than the rate base used in Decision Number 4247 plus the cost of additions and betterments since the date of that decision.

I am satisfied that any creditor of the railway company, who may establish a claim against the Coast Valleys will more likely be able to collect such claim if Coast Valleys is given a reasonable opportunity to take on new business, continue its growth and keep on functioning. The issue of the \$125,000 of bonds applied for will enable it to pay floating debt, which payment should make it possible for the Coast Valleys to secure new funds to pay for necessary additions and betterments.

There is nothing in the record to show that applicant intends to disburse any of its surplus in the form of dividends. No consideration should be given to the payment of dividends by applicant. Any and all surplus earnings should be invested in property and the order herein will contain a condition to that effect.

I herewith submit the following form of Order.

O R D E R.

COAST VALLEYS GAS AND ELECTRIC COMPANY having applied to the Railroad Commission for authority to issue \$125,000 face value of its first mortgage 6 per cent bonds due March 1, 1952, a public

hearing having been held and the Commission being of the opinion that the money, property or labor to be paid for by such issue is reasonably required for the purpose or purposes specified in the order and that the expenditures for such purpose or purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that COAST VALLEYS GAS AND ELECTRIC COMPANY be, and it is hereby, granted authority to issue \$125,000 face value of its first mortgage 6 per cent bonds due March 1, 1952, for the following purposes and upon the following conditions:

- (1).-- The bonds herein authorized to be issued shall be sold by applicant for not less than 85 per cent of their face value plus accrued interest.
- (2).-- The proceeds obtained from the sale of the bonds shall be used by applicant for the purpose of reimbursing its treasury because of earnings expended on capital account, and after such reimbursement, \$90,000 or so much thereof as may be necessary may be used to pay indebtedness due Sierra and San Francisco Power Company, and the remainder of the proceeds must be used to pay for extensions, additions and betterments as may hereafter be authorized by the Railroad Commission in a supplemental order.
- (3).-- By issuing any of the bonds herein authorized, Coast Valleys Gas and Electric Company agrees that it will not disburse any of its surplus earnings in the form of dividends until such time as its alleged liability under the guaranty executed by Monterey County Gas and Electric Company shall have been determined and discharged, - it being understood that all surplus earnings will in the meantime be invested in property, unless otherwise authorized by the Railroad Commission.

(4).-- Coast Valleys Gas and Electric 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, until all of said bonds have been issued and the proceeds expended, the company shall make verified reports to the Railroad Commission stating the sale or sales of said bonds during the preceding months, the terms and the conditions of the sale, the amounts realized therefrom and the use and application of such moneys, all in accordance with 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 in the Public Utilities Act.

(6).-- The authority herein granted shall apply only to such bonds as shall have been issued on or before December 15, 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 12th day of May, 1919.

Edwin O. Edgerton
H. D. Stewart
Frank R. Nelson
H. B. Brundage
Commissioners.

State of California
MAY 13 1919
W. R. Williams
Secretary.