

ORIGINAL  
Decision No. 673

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application :  
of PACIFIC GAS & ELECTRIC COMPANY :  
to execute a mortgage of its prop- :  
erty, to issue \$5,000,000.00 of : Application No. 552.  
debentures, to sell or pledge its :  
debentures, and to issue common :  
stock in exchange for said deben- :  
tures. :

Charles P. Cutten and W. B. Bosley, for  
applicant.

LOVELAND, Commissioner.

O P I N I O N

This is an application by Pacific Gas & Electric Com-  
pany to execute a mortgage of its property to Savings Union Bank  
& Trust Company of San Francisco, as trustee, to secure an issue  
of \$5,000,000.00 of debentures; to issue \$5,000,000.00 of said  
debentures under its proposed mortgage; to pledge all or a por-  
tion of these debentures as collateral security for a loan or  
loans; and to issue its common stock in exchange for these deben-  
tures under that portion of the mortgage which provides for such  
conversion.

The affairs of the applicant herein have been reviewed  
in previous decisions by this Commission. In the application un-  
der consideration, Pacific Gas & Electric Company asks for author-  
ity to use the proceeds from the sale of the debentures for the  
purpose of reimbursing its treasury for income expended upon cap-  
ital construction in the amount of.....\$3,750,000.00,  
and for new construction work in the amount of.. 1,250,000.00.  
making a total of.....\$5,000,000.00.

Applicant submits a statement showing that it has, in  
the last five years, expended from income for additions and bet-  
terments to its plant the sum of \$3,756,821.12. Applicant submits  
also a schedule of proposed new construction in the amount of

\$10,319,934.85. The cost of this new construction is to be defrayed principally through future issues of applicant's general and refunding mortgage bonds. The mortgage under which the general and refunding bonds are authorized provides that such bonds may be issued up to only 90% of the cost of the additions and betterments. It is the remaining 10% which the applicant desires to defray from the proceeds from the sale of the debentures. For the present, however, applicant desires to use \$1,250,000.00 of debentures for such items of construction work, included in the total of \$10,319,934.85, as it may elect, and later to reimburse its debenture fund from the sale of its general and refunding mortgage bonds. While applicant submits at the present time a list of construction items to cost \$10,319,934.85, it states that it will require in addition, during the year 1913, \$4,000,000.00 for new construction arising out of the development of its business and the addition of new consumers. This sum of \$4,000,000.00 will be required principally for new distribution lines and pipes to provide electric and gas service for new patrons. A check of applicant's accounts shows that it has expended, during the past <sup>as stated,</sup> five years, the sum of \$3,750,000.00 from income for additions and betterments to its plant. While a complete check has not been made of the items of new construction listed by applicant, a sufficient investigation has been made to warrant an order authorizing an issue at this time of the amount of debentures desired for new construction of a total of \$1,250,000.00. Such debentures in the sum of \$1,250,000.00 will provide for one-tenth of the cost of new construction of a total amount of \$12,500,000.00.

Pacific Gas & Electric Company's outstanding bonded indebtedness, as of January 1, 1913, amounted to \$75,858,800.00. Against this, applicant claims property of a value in excess of \$100,000,000.00. Applicant submitted evidence to the effect that such appraisals as have been made indicate a value which will not

be less than \$100,000,000.00. While, in the matter herein, I do not find a plant value in this amount or any other sum, I believe that sufficient evidence has been offered to warrant a conclusion that the applicant possesses property of a value reasonably in excess of the face value of its outstanding obligations. Applicant's balance for 1912 after all interest payments was \$2,616,275.83.

The debentures which the applicant asks for authority to issue are protected by a mortgage, although provision is made that additional debentures may share equally in the lien. The debentures which applicant proposes to issue run for 10 years maturing in 1923, and bear interest at 6%. The mortgage under which they are to be issued provides:-

(1) That the debentures may be issued for additions and betterments, etc., but not for operating expenses.

(2) That the debentures shall be convertible into the common stock of the company on the following basis:-

Before June 1, 1917, at \$80.00 per share,

June 1, 1917 to June 1, 1919, at \$85.00 per share,

June 1, 1919 to June 1, 1921, at \$90.00 per share,

June 1, 1921 to June 1, 1923, at \$95.00 per share.

(3) That the debentures shall be callable on December 1 or June 1 of any year at 101.

(4) That the company shall have the right to issue, from time to time, upon vote of its stockholders, such further debentures as may be needed and that such additional debentures shall share equally in the lien with those now to be issued.

In accordance with the conversion feature, applicant asked for authority to issue its stock at such times as it may be necessary to such holders of debentures as may desire to convert them into stock. While applicant's common stock is now quoted in the market at \$52.00 per share, it has been quoted as high as \$70.00, and the applicant believes that there is reasonable expectation that the stock will, within the next ten years, reach a price that will in-

vite conversion.

As a matter of general policy, I am strongly of the belief that public utility corporations should finance additions and betterments both through bonds and stock. In cases in which a corporation has an unusually large unbonded equity it may be the part of wisdom to issue bonds for the full amount of new construction. Where such is not the case, however, and a merely normal relationship exists between outstanding bonds and the value of the property, I believe utilities should be encouraged to raise their additional funds partly from bonds and partly from stock. The applicant herein, through its second vice president, has expressed its concurrence in this view and has voiced the belief that practically all of the debentures which it now asks the Commission to authorize will, before maturity, be converted into stock.

The applicant asks for authority to sell the \$5,000,000.00 of debentures at a price not less than 95, and states that if offer of sale is made the stockholders will be asked to subscribe for the debentures. At 95, the interest rate would be approximately 6 5/8%. This is higher than applicant usually pays for its money and is explained by the general condition of the money market at this time. It is proposed, however, not to sell the debentures at this time but to wait until money conditions improve. In the meanwhile, it is the intention to pledge the debentures as collateral security for a loan or loans. If such loans are negotiated, the debentures will be pledged on a basis not less than 80.

I recommend that the application be granted and submit the following form of Order:-

O R D E R.

Pacific Gas & Electric Company having made application to the Railroad Commission for authority to execute a mortgage of its property to Savings Union Bank & Trust Company of San Francisco, as trustee, to secure an issue of \$5,000,000.00 of 10 year 6% debentures; to issue \$5,000,000.00 of said 10 year 5% debentures,

dated 1913 and maturing June 1, 1923, under said mortgage; to pledge said debentures as collateral security for a loan or loans; and to issue its common stock in exchange for said debentures as provided in said mortgage; and a hearing having been held; and it appearing that the purposes for which applicant proposes to issue said debentures and said stock are not, in whole or in part, chargeable to operating expenses or to income:

IT IS HEREBY ORDERED: That Pacific Gas & Electric Company be authorized, and it is hereby authorized, to execute a debenture mortgage of its property to Savings Union Bank & Trust Company of San Francisco, as trustee, substantially in the form of such debenture mortgage filed with this Commission in the application herein and marked Exhibit "E"; and

IT IS HEREBY ORDERED: That Pacific Gas & Electric Company be authorized, and it is hereby authorized, to issue \$5,000,000.00 of 10 year 6% debentures under the terms and conditions as provided in its debenture mortgage to Savings Union Bank & Trust Company, dated 1913, filed with this Commission in the application herein and marked Exhibit "E"; and

IT IS HEREBY ORDERED: That Pacific Gas & Electric Company be authorized, and it is hereby authorized, to issue such common stock as may be required in exchange for such debentures as are herein authorized to be issued.

Said \$5,000,000.00 of debentures and said stock herein authorized to be issued are authorized to be issued upon the following conditions and not otherwise:-

(1) Said debentures may either be sold by the applicant herein or pledged as collateral security for a loan or loans.

(2) Said debentures, if sold, shall be sold at a price which shall net to applicant not less than 95% of the face value of said debentures plus accrued interest thereon.

(3) Said debentures, if pledged as collateral security

for a loan or loans, shall be pledged on a basis of not more than 125% of the face value of such loan or loans.

(4) The money realized from the sale or pledge of said debentures shall be used only for the following purposes:-

(a) To reimburse applicant's treasury for money expended from income during the past five years for capital construction.....\$3,750,000.00

(b) For such additions and betterments to applicant's plant as it may determine from the list of items of construction filed with this Commission in connection with the application herein and marked Exhibit "B"..... 1,250,000.00

Total.....\$5,000,000.00

(5) The stock herein authorized to be issued shall be issued only in exchange for said debentures herein authorized, and said stock shall be issued at not less than 80 and on such terms and conditions as are prescribed in applicant's debenture mortgage to Savings Union Bank & Trust Company on file with this Commission in the application herein and marked Exhibit "E".

(6) The authority hereby given to issue said debentures shall apply to such debentures as shall be issued before December 31, 1913.

(7) Pacific Gas & Electric Company shall file with this Commission a statement of all debentures herein authorized to be issued which shall be pledged as collateral security for a loan or loans, the amount of debentures so pledged, the amount of the loan or loans secured thereby and the interest paid on such loans.

(8) Pacific Gas & Electric Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the stock and debentures hereby authorized to be issued, and on or before the 25th day of each month, it shall make verified reports to the Commission stating the sale or sales, pledge or conversion of said stock and debentures during the

preceding month, the terms and conditions of sale, moneys or prop-  
erties realized therefrom, and the use and application of such mon-  
eys, all in accordance with this Commission's General Order No. 24,  
which order, in so far as applicable, is made a part of this order.

(9) This order shall become effective only after the pay-  
ment of the fee prescribed by the Public Utilities Act.

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 15<sup>th</sup>  
day of May, 1913.

State of California  
Railroad Commission  
Fee # 3000.00  
MAY 17 1913  
BY H. P. Mackerson  
Assistant Secretary.

John W. Eschleman  
H. P. Mackerson  
W. L. Gordon  
Edwin C. Edgerton

Commissioners.