

ORIGINAL

Decision No. 2276.

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

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In the Matter of the Application of)
WESTERN STATES GAS AND ELECTRIC COMPANY,)
a corporation, for an order authorizing)
the issue of preferred stock of the par)
value of \$603,000.00.)

Application Number 5328.

Chickering & Gregory, by Allen Chickering,
for applicant.

LOVELAND, Commissioner.

O P I N I O N.

WESTERN STATES GAS AND ELECTRIC COMPANY asks permission to issue \$603,000.00 of its 7 per cent preferred stock to refund sinking fund payments and pay construction expenses during 1920. Applicant intends to sell the stock at not less than par, but asks that it be permitted to expend in the sale thereof not exceeding 10 per cent of the par value of stock sold.

In Exhibit "6" attached to the petition, applicant reports its estimated expenditures to pay for additions and betterments to its plant during 1920 at \$532,180.00. This amount it segregates as follows:

Department:	Stockton Division	Richmond Division	Eureka Division	Total
Gas	\$182,500.00	\$ --	\$ 10,350.00	\$ 192,850.00
Electric	243,000.00	54,980.00	38,850.00	336,830.00
Water	2,500.00	--	--	2,500.00
Total	428,000.00	54,980.00	49,200.00	532,180.00

Samuel Kahn, vice-president and general manager of Western States Gas and Electric Company, testified that the above estimate of expenditures includes no extraordinary expenditures except the installation of a new gas machine at Stockton, and that in his opinion the company's actual expenditures will likely exceed the estimate.

Applicant reports stock and funded debt actually outstanding as of December 31, 1919, as follows:

Common Stock,	\$3,231,500.00
Preferred Stock -7% Cumulative,	2,222,200.00
American River Electric First Mortgage 5 per cent bonds,	275,000.00
Western States Gas & Electric First and Refunding 5 per cent bonds,	4,464,500.00
Western States Gas & Electric 10-year 6% Notes,	1,564,000.00
Western States Gas & Electric 5-year 6½% Collateral Notes,	690,000.00
T o t a l,	\$12,447,200.00

For the three years ending December 31, 1919, Western States Gas and Electric Company reports operating revenues, operating expenses and other disbursements as follows:

I t e m	1 9 1 9	1 9 1 8	1 9 1 7
Operating Revenues	\$1,901,303.17	\$1,628,995.86	\$1,402,869.74
Operating Expenses including taxes but not depreciation:	1,105,292.74	970,493.52	761,067.32
Net Operating Revenues	796,010.43	658,502.34	641,802.42
Deductions from Net Operating Revenues:-			
Interest on Funded Debt	373,126.25	344,225.58	306,698.45
Other Interest	5,734.07	13,262.63	18,650.25
Amortization of Debt Discount and Expense	40,485.84	28,010.01	17,424.20
Depreciation accrued	80,000.00	70,000.00	60,000.00
Uncollectible Bills	18,262.42	8,886.94	7,871.18
Total Deductions	509,608.58	464,384.86	410,644.08
Balance available for Dividends, etc.,	286,401.85	194,117.48	231,158.34
Add- Accumulated surplus beginning of year	61,960.64	98,497.04	139,605.40
Add- Miscellaneous items	1,289.43	--	2,712.08
Balance plus Additions	349,651.92	292,614.52	373,475.82
Deduct:			
Dividends on Preferred Stock 7%	152,665.66	150,424.02	148,750.00
Dividends on Common Stock 2½%	72,708.72	78,767.78	77,556.00
Other Deductions	--	1,462.08	48,672.78
Total Deductions	225,374.38	230,653.88	274,978.78
Accumulated Surplus End of Year	124,277.54	61,960.64	98,497.04

Applicant reports that from November 30, 1916 to December 31, 1919, it has paid to the trustees under its various mortgages for sinking fund purposes the sum of \$499,436.25, and that the money so paid to the trustees have been used by them to retire \$566,500 of bonds. Applicant asks permission to issue preferred stock for the purpose of refunding its sinking fund payments and lays particular emphasis upon the fact that the sinking fund payments under the mortgage executed by Western States Gas and Electric Company is extremely onerous and that it requires the company to pay to the trustee on the first day of June and the first day of December of each year an amount equivalent to 1-3/4 per cent on the amount of bonds previously certified and issued. The payments are to be made and based upon the total number of bonds previously certified and issued, including any bonds which may have been purchased or called for the sinking fund in accordance with the terms of the mortgage. Reports filed with the Commission show that the company has redeemed \$665,500.00 of Western States Gas and Electric bonds through sinking fund payments and that \$959,000.00 of Western States Gas and Electric Company bonds are pledged to secure the payment of \$690,000 of 5-year 6 1/2 per cent collateral trust notes. In calculating the sinking fund payments, both the \$665,500 of bonds retired and the \$959,000 of bonds pledged as collateral are taken into account and added to the bonds actually outstanding and in the hands of the public. On December 1, 1919, the sinking fund payments under the Western States Gas and Electric mortgage amounted to \$107,476.25. Assuming no additional bonds were certified by the trustee, a like payment is due on June 1, 1920, making a total annual payment of approximately \$215,000.00. Applicant reports that during 1919, it paid for sinking fund purposes \$28,475 to the trustee under the mortgage of the American River Electric Company, which amount if added to the \$215,000.00 makes an approximate total annual sinking fund payment of \$243,500.00. By referring to the foregoing statement of revenues and expenses, it will be noted that applicant, after paying operating expenses, taxes,

interest and providing for depreciation and uncollectible bills, reported for 1917, a balance of \$231,158.34, for 1918 \$194,117.48 and for 1919 \$286,401.85. It is quite evident from applicant's financial statements that unless the Commission permits applicant to refund its sinking fund payments to some extent through the issue of preferred stock, it will have to either stop the payment of all dividends or call for payment the Western States Gas and Electric Company bonds. The latter under existing financial conditions is, I believe, impractical while the former might make it impossible for applicant to secure any moneys through the sale of additional preferred stock, and I am, therefore, of the opinion that the Commission should permit applicant to issue preferred stock to partially reimburse its treasury because of the surplus earnings which may have been used to meet sinking fund payments or to pay current indebtedness incurred for the purpose of making such payments. I believe, however, that on account of the difference between the value of applicant's properties and its outstanding stock and funded debt, the amount of stock which applicant should be permitted to issue for the purpose of refunding sinking fund payments should not exceed \$404,600.00, -an amount on which the annual dividend payment will be approximately equal to the annual interest charges on the \$566,500.00 of bonds retired through the sinking fund payments. It should, however, be remembered that the permission herein granted to issue stock to refund sinking fund payments in no way commits the Commission to a policy of granting in the future, permission of a similar nature either to applicant or any other public utility.

I herewith submit the following form of Order:

O R D E R.

WESTERN STATES GAS AND ELECTRIC COMPANY having applied to the Railroad Commission for permission to issue \$503,000.00 of its preferred stock, a public hearing having been held and the Railroad Commission being of the opinion 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 this order, and that the expenditures for additions and betterments are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that WESTERN STATES GAS AND ELECTRIC COMPANY be, and it is hereby, authorized to issue \$603,000.00 par value of its 7 per cent cumulative preferred stock.

The authority herein granted is subject to the following conditions:

- 1.--The stock herein authorized to be issued shall be sold by applicant for cash at not less than par, provided that applicant may expend in the sale of such stock an amount not exceeding 10 per cent of the par value of the stock actually sold.
- 2.--None of the stock shall be issued until applicant has received full payment therefor.
- 3.--Stock in the amount of \$404,600.00, or the proceeds obtained from the sale thereof, shall be used by applicant to pay current indebtedness incurred to meet sinking fund payments or reimburse its treasury because of surplus earnings used to meet sinking fund payments.
- 4.--The proceeds obtained from the sale of \$198,400.00 of stock shall be used by applicant to pay for the construction of the extensions, additions and betterments referred to in Exhibit "6" attached to the petition herein.
- 5.--Western States Gas and Electric Company shall keep such

record of the issue and sale of the stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the twenty-fifth day of each month a verified report as required by the Railroad Commission's General Order Number 24, which order, in so far as applicable, is made a part of this order.

6.--The authority herein granted will apply only to such stock as may be issued on or before December 31, 1920.

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 17th day of March, 1920.

Edwin O. Edgerton

H. B. Howard

Frank R. Allen

H. B. Boudage

Dwight Martin
Commissioners.