

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of the San Joaquin Light & Power Corporation for authority to issue bonds and notes. } Application No. 629.

W. A. Sutherland for applicant.

ESHELEMAN, Commissioner:

O P I N I O N

This is an application by San Joaquin Light & Power Corporation for authority to issue \$2,500,000 in bonds, to sell the same, or to pledge them as collateral security for an issue of notes.

The San Joaquin Light & Power Corporation is engaged in the business of generating and selling electricity and gas over a large section of the San Joaquin Valley and in operating a street railway in Bakersfield. The affairs of this corporation have been reviewed in connection with Application No. 278 and a detailed presentation thereof is not necessary for the purposes of the present application.

It is proposed by the applicant to issue \$2,500,000 of its Series B first and refunding mortgage 5 per cent 40 year bonds. The applicant petitions further for authority to pledge said bonds for an issue of \$1,875,000 of 2 year 6 per cent collateral trust notes in accordance with a trust agreement dated August 1, 1913, between the applicant herein and the Savings Union Bank & Trust Company of San Francisco. This collateral trust agreement provides that for every \$3,000 in notes there shall be pledged as collateral security \$4,000 in bonds. The applicant asks also for authority to issue these two year collateral trust notes and petitions further for authority to pledge such bonds as may not be deposited under the collateral trust agreement as security for individual loans which it may negotiate.

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It is proposed to use the proceeds from the sale of bonds or from the issue of notes for additions and betterments to applicant's plant and facilities. The applicant has presented as "Exhibit B" a list of these proposed additions and betterments and also a summary as follows:

Transmission and Distributing Systems, . . . . .	\$ 425,521.66
Powerhouses and Substations, . . . . .	1,293,955.71
Miscellaneous, . . . . .	86,421.38
Automobiles, . . . . .	14,004.00
Furniture, . . . . .	600.00
Bakersfield Gas & Electric Company, . . . . .	19,276.81
Excess of Expenditures made over Estimated Expenditures used as a basis for issuing bonds of the San Joaquin Light and Power Company's \$3,000,000 issue and the San Joaquin Light and Power Corporation's Series "A" and "B" issues. (These expenditures were for betterments prior to the advent of the Railroad Commission) . . . . .	<u>50,415.19</u>
	1,890,194.75
Future betterments and extensions to plants and system required to take care of ordinary growth of business, . . . . .	<u>1,050,981.75</u>
Final Total, . . . . .	\$2,941,176.50

The powerhouses, substations and transmission lines, etc., are required by the applicant in the upbuilding of its business. This development is all rendered necessary by the rapid expansion of business. These improvements have been considered and passed upon in detail by this Commission in previous applicants, and the present request is for bonds to continue upon this work heretofore approved.

The applicant has presented appraisals of its property in detail sufficient to establish a reasonable margin above the face value of its outstanding indebtedness.

Applicant submits a statement of bonds outstanding to the amount of . . . . . \$7,358,000.00 and floating indebtedness to the amount of . . . . . 1,563,207.91 making a total indebtedness of . . . . . \$8,921,207.91.

For the year ending May 31, 1913, San Joaquin Light & Power Corporation submits a statement of earnings as follows:

Gross Earnings, . . . . .	\$1,539,504.67
Operation and Maintenance, . . . . .	<u>313,937.20</u>
Net Plant Earnings, . . . . .	\$1,225,517.47
General Administration and other expense, . . . . .	<u>223,402.55</u>
Net Earnings from Operation, . . . . .	\$1,002,114.92
Sundry Earnings, . . . . .	<u>26,659.85</u>
Net Income, . . . . .	\$1,028,774.77
Taxes and Sundries, . . . . .	<u>59,728.01</u>
Balance for Fixed Charges, . . . . .	\$ 969,046.76
Interest, etc., . . . . .	<u>403,591.01</u>
Net Profit, . . . . .	\$ 565,455.75
Sinking Fund, . . . . .	<u>60,040.73</u>
Surplus, . . . . .	\$ 505,415.02.

It is clear, therefore, that the earnings of the applicant are far more than ample to take care of the additional interest charge to be created by a further issue of bonds.

A check of the proposed additions and betterments for which applicant desires to expend the proceeds from the sale of its bonds or the issue of its notes shows that they are not in whole or in part chargeable to operating expenses. The Commission, however, should be supplied with further detail on the item "Powerhouses and Substations", and on the item of \$50,415.19 for excess of expenditures over previous estimates.

I am not prepared at this time to approve an issue of bonds for future betterments and extensions in the lump sum of \$1,050,981.75. The applicant herein, as in the case of every large electric or gas corporation, is required to make small extensions from time to time in the development of its business which can not be anticipated and specified in advance. It has been the practice of the Commission to make proper allowance for these service extensions and connections. I believe at this time the Commission should issue its authorization for such extensions in a sum not to exceed \$250,000. The applicant may later apply for the additional bonds needed for these extensions when it can present to the Commission some more definite statement as to the nature, cost and general location of these proposed extensions.

I believe also that the Commission's approval of the item of \$50,415.19 for excess expenditures over estimates should be postponed until such time as the applicant shall submit the additional details necessary to a satisfactory check of this item.

I find among the list of proposed betterments such items as automobiles, which depreciate rapidly. I would be unwilling to authorize the issue of a long term bond for such purposes had not the applicant set up a proper depreciation against these items. The finding herein as to the future betterments and extensions in excess of the \$250,000 and as to the item of \$50,415.19 of excess expenditures over estimates, shall be entirely without prejudice as to the right of the applicant to reapply as to these items.

The mortgage and deed of trust under which the ~~issue~~ issue of bonds herein applied for will be issued limits the amount of bonds that may be so issued to 85 per cent of the additions and betterments. This mortgage and deed of trust provides

further that bonds may be issued only when the <sup>net</sup> earnings for the year ending two months previous have been twice the amount necessary to pay interest on all bonds outstanding, together with the interest on the bonds which it is proposed to issue.

Applicant presents a statement showing that under the terms of its mortgage and deed of trust it may now issue bonds to the amount of \$1,626,000.

In accordance with the findings herein I recommend that applicant be given authority to issue bonds in such proportion as is fixed under its mortgage and deed of trust for additions and betterments costing \$2,089,779.56. Under its mortgage and deed of trust the applicant may issue bonds to the amount of 85 per cent of this sum, or \$1,776,000.

I recommend, therefore, that San Joaquin Light & Power Corporation be given authority to issue its bonds to the amount of \$1,776,000, and that it be limited to the amount it may issue at this time to \$1,626,000, and that it be given authority to issue the balance when it shall have presented evidence to this Commission that its net earnings have attained the relationship to its bond interest ~~as~~ prescribed in its mortgage and deed of trust.

In view of the unusual financial conditions prevailing at this time, San Joaquin Light & Power Corporation asks that it be given authority to sell its bonds at a price not less than 80 per cent of their face value, and that it be given authority to issue its two year 6 per cent notes at a price not less than 94. At the hearing, however, applicant stated that it could probably sell its notes at a figure considerably better than 94. The interest rate on a 6 per cent two year note at 94 or 95 is unusually high. We shall fix a minimum of 95, but believe this corporation should be able to sell its notes at a better figure.

I recommend that the application be granted as modified in this opinion, and submit the following form of order:

ORDER

San Joaquin Light & Power Corporation having applied to this Commission for authority to issue \$2,500,000 of its Series B, first and refunding mortgage 40 year 5 per cent bonds under its mortgage and deed of trust to The Trust Company of America; to pledge said bonds as collateral security for an issue of \$1,875,000 of two year 6 per cent collateral trust notes under an agreement with Savings Union Bank & Trust Company of San Francisco, dated August 1, 1913; to issue said two year 6 per cent collateral trust notes; and to pledge such bonds as may not be deposited under said agreement with Savings Union Bank & Trust Company of San Francisco, as collateral security for such loans as it may negotiate;

And a hearing having been held and it appearing that the purposes for which San Joaquin Light & Power Corporation desires to issue said bonds and said notes are not in whole or in part chargeable to operating expenses or to income;

IT IS HEREBY ORDERED: That San Joaquin Light & Power Corporation be given authority, and it is hereby given authority to issue \$1,776,000 of its Series B, first and refunding mortgage 40 year 5 per cent bonds, under its mortgage and deed of trust to The Trust Company of America, a copy of which is on file with this Commission in connection with Application No. 278 to which reference is hereby made, ~~xxx~~ said bonds to be due and payable August 1, 1950;

IT IS HEREBY ORDERED: That San Joaquin Light & Power Corporation be given authority, and it is hereby given authority to issue its two year 6 per cent collateral trust notes, under

its agreement with Savings Union Bank & Trust Company of San Francisco, dated August 1, 1913, a copy of which is on file with this Commission in connection with the application herein, and marked "Exhibit C", to which reference is hereby made, said notes to be due and payable August 1, 1915.

Authority to issue said bonds and said notes is given upon the following conditions and not otherwise:

(1) Applicant may issue at this time bonds of the face value of \$1,626,000, and may issue the balance of \$1,776,000 of bonds after it shall have received a supplemental order from this Commission stating that its net earnings for the year ending two months previous shall have been twice the interest on its outstanding bonds plus twice the interest on the bonds proposed to be issued.

(2) Said bonds, when sold, shall be sold to net applicant not less than 80 per cent of their face value plus accrued interest thereon.

(3) Said bonds may be pledged as security for an issue of two year 6 per cent collateral trust notes, in accordance with an agreement between San Joaquin Light & Power Corporation and Savings Union Bank & Trust Company of San Francisco, to which reference has heretofore been made in this opinion and order.

(4) Such portion of said issue of \$1,776,000 of bonds herein authorized to be issued as may not be pledged as security for said two year 6 per cent collateral trust notes, may be pledged by San Joaquin Light & Power Corporation as security for such note or notes as it may issue.

(5) San Joaquin Light & Power Corporation shall file with this Commission within thirty days a statement showing the amount of bonds deposited under its trust agreement with Savings Union Bank & Trust Company of San Francisco.

(6) San Joaquin Light & Power Corporation shall file with this Commission a list of such notes as it may issue, other than its two year 6 per cent collateral trust notes, under its agreement with Savings Union Bank & Trust Company of San Francisco, upon the collateral security of any part of said \$1,776,000 of bonds herein authorized. Said notes shall bear interest not to exceed 7 per cent <sup>per annum</sup> and shall be in amount not less than 75 per cent of the face value of the bonds pledged as collateral security.

(7) The proceeds from the sale of said bonds and from all notes herein authorized to be issued shall be applied upon the following:

Transmission and distribution systems, as set forth in applicant's Exhibit B, . . .	\$425,521.65
Powerhouses and substations, as set forth in applicant's Exhibit B, . . . . .	1,293,955.71
Miscellaneous expenditures, as set forth in applicant's Exhibit B, . . . . .	86,421.38
Automobiles, as set forth in applicant's Exhibit B, . . . . .	14,004.00
Furniture, as set forth in applicant's Exhibit B, . . . . .	600.00
Additions and betterments, as set forth in applicant's Exhibit B, . . . . .	19,276.81
Future betterments and extensions required to take care of ordinary business development, . . . . .	<u>250,000.00</u>
Total, . . . . .	\$2,089,779.56

(8) Applicant shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale or pledge of the bonds or notes hereby authorized to be issued, and on or before the twenty-fifth day of each month, it shall make verified reports to the Commission stating the sale or sales or pledge of said bonds or notes during the preceding month, the terms and conditions of sale or pledge, moneys or properties realized therefrom, and the use and appli-



cation of such moneys, all in accordance with this Commission's General Order No. 24, which order, insofar as applicable, is made a part of this Order.

(9) This Order shall not become effective until the fee specified in Section 57 of the Public Utilities Act shall have been paid.

(10) The authority hereby given to issue bonds and notes shall apply to such bonds and to such notes as shall have been issued on or before July 1, 1914.

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 12<sup>th</sup> day of July, 1913.

John M. Eschleman

Max Thelen

Edwin Q. Edgerton

Commissioners.

