

ORIGINAL

Decision No. 966

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of
MIDLAND COUNTIES PUBLIC SERVICE COR-
PORATION for authority to issue bonds
and to purchase the properties of
Midland Counties Gas & Electric Com-
pany, Paso Robles Light & Water Com-
pany and Russel-Robison Water & Elec-
tric Company; and of Midland Counties
Gas & Electric Company, Paso Robles
Light & Water Company and Russel-Robi-
son Water & Electric Company to sell
the same.

Application No. 742.

W. A. Sutherland, for Applicants.

LOVELAND, Commissioner.

O P I N I O N

This is an application which contemplates the consoli-
dation of water, gas and electric properties in Fresno, Monterey,
San Luis Obispo and Santa Barbara counties. The same matters
were involved in Application No. 515 but that application has now
been dismissed at the request of the parties interested and the
present application is made in lieu thereof.

In Application No. 515, it was proposed that a new cor-
poration be formed to be known as Midland Counties Public Service
Company and that this corporation absorb Coalinga Water & Electric
Company, Midland Counties Gas & Electric Company, Paso Robles
Light & Water Company and Russel-Robison Water & Electric Company.
Subsequent to the hearing on that application, however, it was de-
termined to accomplish the same results by changing the name of
Coalinga Water & Electric Company to Midland Counties Public Ser-
vice Corporation. This has since been done.

Midland Counties Public Service Corporation, as successor
to Coalinga Water & Electric Company, serves a section of territory
extending from Coalinga, in Fresno county, into a portion of Mon-

terey county and Northern San Luis Obispo county. Its chief business is the sale and distribution of electricity. It owns 2,800 shares of the 3,505 shares of issued stock of Midland Counties Gas & Electric Company which serves San Luis Obispo with gas and electricity, and a portion of Northern Santa Barbara county in and about Santa Maria, with electricity. Midland Counties Public Service Corporation also controls, by stock ownership, the Paso Robles Light & Water Company, which serves Paso Robles and San Miguel and vicinity, in San Luis Obispo county, and by similar stock ownership it controls the Russel-Robison Water & Electric Company, which serves Arroyo Grande, in San Luis Obispo county.

It is the purpose of Midland Counties Public Service Corporation to acquire 700 shares of the capital stock of Midland Counties Gas & Electric Company, which will then give it possession of all the shares of stock except those necessary to qualify directors.

In order to unify these utilities, the application proposes further that Midland Counties Public Service Corporation shall take over the properties and franchises of these three corporations. In addition, Midland Counties Public Service Corporation applies for authority to mortgage these combined properties for an authorized bond issue of \$3,000,000.00 and to issue thereunder a total of \$1,159,000.00 of bonds, of which \$821,000.00 shall be for refunding underlying bonds and \$338,000.00 for additions and betterments.

This application may, therefore, be summarized as follows:-

- (1) Application of Midland Counties Public Service Corporation to purchase 700 shares of the capital stock of Midland Counties Gas & Electric Company.
- (2) Application of Midland Counties Public Service Corporation to purchase the property and franchises of Midland Counties Gas & Electric Company.

(3) Application of Midland Counties Public Service Corporation to purchase the property and franchises of the Paso Robles Light & Water Company.

(4) Application of Midland Counties Public Service Corporation to purchase the properties and franchises of Russel-Robison Water & Electric Company.

(5) Application of Midland Counties Public Service Corporation to mortgage its properties to Security Trust & Savings Bank of Los Angeles, as Trustee, for an authorized issue of \$3,000,000.00 of bonds.

(6) Application of Midland Counties Public Service Corporation to issue \$1,159,000.00 of its first and refunding forty-year 6% bonds for the following purposes: to refund bonds of Coalinga Water & Electric Company, \$546,000.00; to refund bonds of Midland Counties Gas & Electric Company, \$275,000.00; for additions and betterments, \$338,000.00. Of these bonds, it proposes to issue at this time \$821,000.00 for refunding purposes and \$79,000.00 for additions and betterments.

(7) Application of Midland Counties Gas & Electric Company to sell its properties and franchises to Midland Counties Public Service Corporation.

(8) Application of Paso Robles Light & Water Company to sell its property and franchises to Midland Counties Public Service Corporation.

(9) Application of Russel-Robison Water & Electric Company to sell its properties and franchises to Midland Counties Public Service Corporation.

Midland Counties Public Service Corporation intends, by the consolidation of these related public utility enterprises which it now controls, to systematize the distribution of electricity in a large agricultural section. It is the intention of applicant to develop the pump irrigation business particularly, and

it is urged that the business can be carried on to greater advantage to the corporation and to the public by a consolidation of these companies which now are controlled by the same parties.

The testimony shows that through the consolidation the rates are to be reduced and that service will be bettered.

I believe the consolidation of these properties will be of decided advantage to the public and I shall recommend, therefore, that such consolidation be authorized by this Commission.

It appears that the 700 shares of capital stock of Midland Counties Gas & Electric Company, which Midland Counties Public Service Corporation desires to purchase, are now held by A. C. Balch, as trustee. It was the intention originally to transfer all the stock to Midland Counties Public Service Corporation and it has merely been held by Mr. Balch as trustee.

I recommend, therefore, that Midland Counties Public Service Corporation be given authority to purchase the 700 shares of stock of Midland Counties Gas & Electric Company for \$35,000.00, as requested.

In connection with its application to issue bonds, Midland Counties Public Service Corporation has submitted an estimate of the value of its properties as of March 31, 1913, in the sum of \$1,027,139.00.

While I make no finding as to the value of applicant's property, I recommend that it be given authority for the present to assume the bonded indebtedness of the Coalinga Water & Electric Company in the sum of \$546,000.00 and of Midland Counties Gas & Electric Company in the sum of \$275,000.00, or a total of \$821,000.00.

It is the purpose of Midland Counties Public Service Corporation to refund at the present time the bonds of Coalinga Water & Electric Company and to exchange for the most part on a basis of one bond of Midland Counties Public Service Corporation

for one bond of Coalinga Water & Electric Company. In some instances, applicant expects to pay a bonus of \$20.00 per bond, but this will come from surplus or from the stockholders.

Applicant proposes to place \$275,000.00 of Midland Counties Public Service Corporation bonds with its trustee to refund the bonds of Midland Counties Gas & Electric Company. Such exchange can only be made if the present holders of the bonds of Midland Counties Gas & Electric Company so desire, for the issue does not mature until 1932 and Midland Counties Public Service Corporation does not suggest that the bonds be called.

I recommend that this refunding be authorized, as requested, and that the company be given one year to execute this refunding. If it should happen, at the end of the year, that this refunding has not been completed, and it is desired that the authority for such refunding be continued, application may be again made to the Commission.

I am not willing, however, to recommend that this refunding be now authorized to stand until 1932. The same purpose can be accomplished by annual authorizations, if such be necessary.

Applicant asks authority to mortgage its property to Security Trust & Savings Bank of Los Angeles, as Trustee, under the terms and conditions set forth in a mortgage and deed of trust, a copy of which has been filed with this Commission in the application herein and marked Exhibit "B". Under the terms of this mortgage, applicant may issue bonds to the total amount of \$3,000,000.00. Of this amount, \$821,000.00 of bonds are reserved for refunding, as above indicated. The balance of the first \$1,500,000.00 may be issued for the full cost of additions and betterments when net earnings shall be one and one-half times the interest on the outstanding bonds plus one and one-half times the interest on the bonds proposed to be issued. The remaining bonds,

in the sum of \$1,500,000.00, may be issued for only 85% of the cost of additions and betterments and then only when the net earnings for one year shall have been one and three-fourths times the interest on the bonds outstanding plus one and three-fourths times the interest on the bonds proposed to be issued.

Applicant has made additions and betterments against which it proposes to issue \$338,000.00 in bonds, but at this time its earnings would entitle it to an issue of \$79,000.00 in bonds against these additions and betterments. It asks that the full amount of \$338,000.00 be authorized and that it be given permission to issue at this time \$79,000.00 with authority to issue the balance from time to time.

Applicant submits a list of additions and betterments consisting of extensions and betterments costing \$413,673.74. These additions and betterments are set forth in Exhibit "C" in connection with the application herein and consist of substations, transmission lines, etc., over the territory in which applicant operates.

I find that these additions and betterments were necessary to applicant's business and made at reasonable cost.

Applicant submits a consolidated earning statement covering all its properties for the year ending June 30, 1913, as follows:-

Gross Earnings.....	\$ 196,517.91
Miscellaneous Income.....	4,423.71
	<u>\$ 200,941.62</u>

DEDUCT EXPENSES:

Operating and Maintenance.....	\$ 78,273.34
Administration and General.....	32,819.61
Taxes and Insurance.....	10,389.60
	<u>\$ 121,482.55</u>

Profit before providing for interest and depreciation.....	79,459.07
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DEDUCT:

Interest:

On Bonds.....	\$ 50,897.46
Miscellaneous.....	893.61
	<u>\$ 51,791.07</u>

Less:

Proportion charged to Capital Accts.....	3,753.22
	<u>\$ 48,037.85</u>

Proportion of Bond Dis-
count and Expense Writ-
ten off.....

	1,782.17
	<u>\$ 49,820.02</u>

Net Profit before charging

Depreciation.....	\$ 29,639.05
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I find that applicant has made additions and betterments which, under the terms of its mortgage, would entitle it to issue, at such times as its earnings as provided in said mortgage, justify, bonds to the amount of \$338,000.00. I find, however, applicant will pay \$35,000.00 for the 700 shares of Midland Counties Gas & Electric Company and I am not willing at this time to recommend that bonds be issued for this purpose. It is clear, however, that applicant will continue to carry part of its floating indebtedness and it stated that its principal stockholders would advance money for this purpose.

I recommend that applicant be given authority, as requested, to issue bonds to the amount of \$1,159,000.00, provided, however, that applicant be permitted to issue at this time \$821,000.00 in bonds for refunding purposes and that it be authorized to issue the remaining \$338,000.00 in bonds only upon supplemental application and supplemental orders from this Commission.

I recommend this plan of procedure so that applicant may, in the meanwhile, file with the Commission a detailed appraisal of its properties. A check of this appraisal will be necessary to guide the Commission in issuing its supplemental orders on the matter here under consideration.

I submit the following form of Order:-

ORDER

Midland Counties Public Service Corporation having made application to this Commission for authority as follows:-

(1) To purchase 700 shares of the common capital stock of Midland Counties Gas & Electric Company;

(2) To purchase the properties and franchises of Midland Counties Gas & Electric Company, which properties are enumerated in applicant's mortgage and deed of trust to Security Trust & Savings Bank of Los Angeles, as Trustee, on file with this Commission and marked Exhibit "B";

(3) To purchase the franchises and properties of Paso Robles Light & Water Company, which properties are enumerated in applicant's mortgage and deed of trust to Security Trust & Savings Bank of Los Angeles, as Trustee, on file with this Commission and marked Exhibit "B";

(4) To purchase the properties of Russel-Robison Water & Electric Company, which properties are enumerated in applicant's mortgage and deed of trust to Security Trust & Savings Bank of Los Angeles, as Trustee, on file with this Commission and marked Exhibit "B";

(5) To mortgage its properties to Security Trust & Savings Bank of Los Angeles to secure an issue of \$3,000,000.00 of first and refunding 6% forty-year bonds, such mortgage bearing date of October 1, 1913 and being substantially in the form of a copy of said mortgage on file with this Commission in connection with the application herein and marked Exhibit "B";

(6) To issue \$1,159,000.00 of said first and refunding 6% forty-year bonds, dated October 1, 1913 and maturing October 1, 1953, and to be used as follows: bonds Nos. 1 to 275, inclusive, to be reserved against the retirement of bonds of the Midland Coun-

ties Gas & Electric Company; bonds Nos. 276 to 821, both inclusive, to be reserved against the retirement of bonds of the Coal-
inga Water & Electric Company; and bonds Nos. 822 to 1,159, both
inclusive, for additions and betterments to applicant's property;

And Midland Counties Gas & Electric Company, Paso Robles
Light & Water Company and Russel-Robison Water & Electric Company
having made application to this Commission for authority to sell
their franchises and properties to Midland Counties Public Service
Corporation;

And a hearing having been held; and it appearing that
public convenience and necessity will be served by the consolida-
tion of these properties, as applied for, and that public conven-
ience will also be served by authorizing Midland Counties Public
Service Corporation to mortgage its property;

And it appearing, further, that the property acquired
and to be acquired by Midland Counties Public Service Corporation,
through the issue of bonds, is reasonably required in the conduct
of its business;

And it appearing also that the purposes for which said
bonds are to be issued are not, in whole or in part, reasonably
chargeable to operating expenses or to income;

IT IS HEREBY ORDERED: That Midland Counties Public Ser-
vice Corporation be given authority, and it is hereby given auth-
ority, to purchase 700 shares of the common capital stock of the
Midland Counties Gas & Electric Company; to purchase the proper-
ties and franchises of Midland Counties Gas & Electric Company; to
purchase the franchises and properties of Paso Robles Light & Water
Company; and to purchase the properties of Russel-Robison Water &
Electric Company, said properties being enumerated in applicant's
mortgage to Security Trust & Savings Bank of Los Angeles filed in
connection with this application and marked Exhibit "B"; and

IT IS HEREBY ORDERED: That Midland Counties Gas & Electric Company, Paso Robles Light & Water Company and Russell-Robison Water & Electric Company be given authority, and they are hereby given authority, to sell said properties.

IT IS FURTHER ORDERED: That Midland Counties Public Service Corporation be given authority, and it is hereby given authority, to execute a mortgage of its properties to Security Trust & Savings Bank of Los Angeles, as Trustee, substantially in the form of a copy of said mortgage filed in connection with the application herein and marked Exhibit "B", to which reference is hereby made, to secure an issue of \$3,000,000.00 of first and refunding 6% forty-year bonds, said mortgage bearing date of October 1, 1913.

AND IT IS HEREBY ORDERED: That Midland Counties Public Service Corporation be given authority, and it is hereby given authority, to issue, under said mortgage and deed of trust, \$1,159,000.00 of said first and refunding 6% forty-year bonds bearing date of October 1, 1913 and maturing October 1, 1953.

The authority hereby given to issue said bonds is given on the following conditions and not otherwise:-

(1) Midland Counties Public Service Corporation may issue at this time its bonds as follows:-

(a) \$275,000.00 of its bonds, - being bonds numbered 1 to 275, inclusive, - to be used to retire a like amount of bonds of Midland Counties Gas & Electric Company.

(b) \$546,000.00 in bonds, - being bonds numbered 276 to 821, both inclusive, - to retire a like amount of bonds of Colalinga Water & Electric Company.

(c) Said bonds shall be retired on the basis of bond for bond of equal par value.

(2) Midland Counties Public Service Corporation is hereby given authority to issue its bonds in the amount of \$338,000.00

to pay such of its notes payable, listed with this Commission as Exhibit "E", or notes given in exchange therefor, when it shall be made to appear to the satisfaction of this Commission that said notes were given in payment for additions and betterments to applicant's property, as listed with this Commission in connection with the application herein and marked Exhibit "C"; said bonds to net applicant not less than 92% of face value plus accrued interest.

(3) Midland Counties Public Service Corporation shall issue the remaining bonds herein authorized in the preceding paragraph to the amount of \$338,000.00 only after it shall have presented a supplemental application to this Commission and received a supplemental order from said Commission.

(4) The authority herein given to Midland Counties Public Service Corporation to issue bonds for refunding other bonds shall apply to such bonds as shall have been actually exchanged for bonds of Coalings Water & Electric Company and for bonds of Midland Counties Gas & Electric Company on or before June 30, 1914.

(5) The authority herein given to Midland Counties Public Service Corporation to issue said \$338,000.00 of bonds shall apply to such bonds as shall have been issued on or before September 15, 1914.

(6) Midland Counties Public Service Corporation shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale or other disposition of the bonds hereby authorized to be issued; and on or before the twenty-fifth day of each month the company shall make verified reports to the Commission stating the sale or sales or exchange of said bonds during the preceding month, the terms and conditions of the sale or exchange, the moneys or bonds realized therefrom, and the use and application of such moneys, 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.

(7) This Order shall not become effective until the fee required by Section 57 of the Public Utilities Act has been paid.

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 24th day of September, 1913.

H. H. ...
...
Edwin C. Edgerton

Commissioners.

Railroad Commission State of California
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H. H. ...
Assistant Secretary