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Decision No. 7789.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

* * *

In the Matter of the Application of)
COAST VALLEYS GAS AND ELECTRIC COMPANY,)
a corporation, for an order authorizing)
the creation and issuance of preferred)
stock and the exchange and retirement)
of present issue of preferred stock.)

Application No. 7207.

James F. Pollard for applicant.

BENEDICT, Commissioner.

O P I N I O N.

In this application COAST VALLEYS GAS AND ELECTRIC COMPANY asks permission to issue \$500,000.00 of 6 per cent. preferred stock, to refund outstanding preferred stock and finance the construction of additions and betterments.

Coast Valleys Gas and Electric Company was organized on or about March 18, 1912, with an authorized stock issue of \$5,000,000.00, divided into \$3,000,000.00 of common and \$2,000,000.00 of 7 per cent. cumulative preferred. All of the stock was issued prior to March 23, 1912, the effective date of the Public Utilities Act. No dividend has ever been paid on either class of stock.

Applicant's funded debt in the hands of the public is reported at \$1,260,000.00, consisting of \$1,020,000.00 of first mortgage 6 per cent. bonds due March 1, 1952, and \$240,000.00 of 10-year 8 per cent. gold notes due March 1, 1930. In addition, applicant has deposited \$360,000.00 of its first mortgage bonds to secure the payment of its 10-year 8 per cent. gold notes. Applicant's current liabilities on August 31, 1921 were less than its current assets.

The Railroad Commission in Decision No. 4847, dated November 16, 1917 in Application No. 1876, revised applicant's rates and used as a rate base as of June 30, 1917, the sum of \$1,213,546.36. Applicant reports that since June 30, 1917, its net construction expenditures have totaled \$494,305.74, which added to the \$1,213,546.36, makes a total of \$1,707,852.10. The present value of the properties on a reproduction basis is reported by applicant at approximately \$2,500,000.00. Deducting from the \$1,707,852.10 applicant's funded debt of \$1,260,000.00, leaves a balance of \$447,852.10 for the preferred stock. If a value of \$2,500,000.00 is assumed for the properties, the balance for the preferred stock is \$1,240,000.00. Applicant has now outstanding \$2,000,000.00 of 7 per cent. preferred stock, on which the accumulated unpaid dividends by the end of the year will amount to approximately \$1,250,000.00.

Applicant has from time to time been called upon to expend relatively large amounts for construction. To meet the demands for service and render proper service throughout the territory in which it is operating, applicant will have to continue to expend considerable sums for additions and betterments. It appears that applicant's stockholders realized that some of the moneys necessary for additions and betterments should be secured through the issue and sale of stock. It is apparent that under applicant's present financial set-up, it cannot hope to secure any funds through the sale of preferred stock, for the reason that the equity behind such stock is considerably less than the par value of the stock and unpaid accumulated dividends. The record shows that applicant's preferred stockholders have agreed to return to applicant the \$2,000,000.00 of outstanding preferred stock and to cancel their claims for unpaid dividends on such stock, provided the company issue to them in exchange for the stock and the claims for unpaid dividends new 6 per cent. preferred stock in the amount of \$400,000.00.

Proceedings have been initiated to amend applicant's

articles of incorporation, so as to provide for the issue of \$500,000.00 of 6 per cent. cumulative preferred stock. Of this amount, applicant asks permission to issue \$400,000.00 to its present preferred stockholders in exchange for the \$2,000,000.00 of preferred stock they now own and their claims for unpaid dividends, and to sell the remaining \$100,000.00 at such price as the Commission may determine and use the proceeds to pay for additions and betterments.

In its Exhibit No. "5", applicant reports in some detail the estimated cost of additions and betterments to plant which are in process of construction or the construction of which should be undertaken as soon as funds are available. Applicant's Exhibit No. "5" may be summarized as follows:

Amount necessary to complete construction work in progress,.....	\$ 1,773.83
Estimated cost of proposed construction work which is urgent and which should be undertaken immediately,.....	139,650.00
Estimated cost of proposed construction work which should be made if, as and when cash is available,.....	235,700.00
Extraordinary maintenance some of which is chargeable to operation, and some to depreciation reserve,.....	<u>20,350.00</u>
Total,.....	\$397,473.83

I am thoroughly in accord with applicant that it should secure some of the money necessary to pay for its proposed construction through the issue and sale of stock. I do not believe, however, that applicant's proposed refinancing plan goes far enough. It occurs to me that applicant should refund all of its outstanding stock and bring its capitalization in line with its rate base plus a proper allowance for non-operative income producing properties.

Improper financing, carried over from the period when this Commission did not have control over the issue of stocks and bonds, has resulted in some utilities depending entirely on borrowed funds or earnings for moneys to pay for additions and betterments. The result has been the payment of high interest rates for loaned capital.

The inability to sell stock is not always due to low earnings on property used and useful in rendering service to the public, but frequently is caused by the fact that a large amount of stock is outstanding which does not rest upon any real equity. It is only through refinancing and the sale of stock that such conditions can be remedied. It is unfortunate that the Commission has not sufficient power to take positive action in these matters. I am convinced that antiquated financial structures have seriously handicapped utilities in their financing and have been a cause in rendering unsatisfactory service to the public. The plan suggested by applicant in this proceeding is in the right direction, but it is suggested that those in control of this company consider the refinancing of the present outstanding common stock as well as the preferred.

Applicant asks permission to sell its 6 per cent. cumulative preferred stock at not less than 70, or such other price as the Commission may determine. This request of applicant has been considered, and I do not believe that it should sell its stock for less than \$80.00 per share net.

I herewith submit the following form of Order:-

ORDER

COAST VALLEYS GAS AND ELECTRIC COMPANY having applied to the Railroad Commission for permission to issue \$500,000.00 of 6 per cent. cumulative preferred stock, a public hearing having been held and the Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required by applicant and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED, that COAST VALLEY GAS AND ELECTRIC COMPANY be, and it is hereby, authorized to issue \$500,000.00 par value of 6 per cent. cumulative preferred stock.

The authority herein granted is subject to the following conditions:-

- 1.--Of the stock herein authorized to be issued, \$400,000.00 may be issued for the purpose of refunding the \$2,000,000.00 of 7 per cent. cumulative preferred stock now outstanding, together with all claims for any unpaid dividends on said \$2,000,000.00 of preferred stock, said \$400,000.00 of stock to be issued concurrently with or subsequent to the cancellation of the \$2,000,000.00 of stock.
- 2.--Of the stock herein authorized to be issued, \$100,000.00 par value may be sold by applicant, for cash, for not less than \$80.00 per share net.
- 3.--The proceeds realized from the sale of the \$100,000.00 of stock may be used by applicant for the purpose of financing in part the cost of the additions and betterments reported in Exhibit "5" to the extent that such cost is properly chargeable to capital account under the uniform system of accounts prescribed by this Commission.

4.--Coast Valleys Gas and Electric Company shall keep such record of the issue, sale and delivery of the stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report as required by the Railroad 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 will apply only to such stock as may be issued, sold and delivered on or before August 31, 1922.

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 23rd day of November, 1921.

H. P. Boudier
James Martin
Frank H. ...
W. H. ...

Commissioners.