

IM

Decision No. 9872

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of)
OJAI POWER COMPANY, a corporation, for) Application Number 7275
permission to issue additional security.)

Drapeau, Orr and Gardner,
by H. F. Orr, for Applicant.

BY THE COMMISSION:

O P I N I O N

In this application, as amended by its supplemental petition, OJAI POWER COMPANY asks permission to issue \$31,600.00 of its common capital stock and to use the proceeds to construct, extend and improve its facilities and service and to reimburse itself for moneys expended for capital purposes.

A public hearing was held before Examiner Westover at Ojai.

Ojai Power Company, which was incorporated on or about July 22, 1912, owns and operates an electric transmission and distribution system in Ojai Valley, Ventura County and a water plant in the City of Ojai. It reports its assets and liabilities as of October 1, 1921, as follows:-

A S S E T S

Electric Investment	\$40,081.48
Water Investment	18,986.87
Special Deposits	1,500.00
Cash	4,500.72
Materials and Supplies	1,175.28
Prepaid Expense	481.75
	<hr/>
TOTAL ASSETS	<u>\$66,726.10</u>

L I A B I L I T I E S

Capital Stock	\$48,400.00
Accounts Payable	5,471.97
Consumer's Deposits	4,511.90
Accrued Taxes	376.20
Water Depreciation Reserve	83.33
Electric Depreciation Reserve	1,527.95
Undivided Profits	4,854.75
Surplus	1,500.00
	<hr/>
TOTAL LIABILITIES	<u>\$66,726.10</u>

The company when incorporated had an authorized stock issue of \$50,000.00 of common stock. The petition shows that recently applicant increased its authorized stock to \$100,000. divided into 1,000 shares of the par value of \$100. each. As shown in the foregoing balance sheet, \$48,400. of stock is at present outstanding.

Applicant now desires permission to issue additional stock of the par value of \$31,600. The testimony of M. W. Phillips, applicant's vice-president and general manager, shows that the company proposes to issue \$3,100.00 of the stock to pay advances made to it by consumers and which were used for capital purposes and to sell the remaining stock at par. Mr. Phillips stated that in his opinion the entire amount could be sold.

Applicant reports that it intends to use the proceeds from the sale of its stock for the following purposes:-

(1)	To reimburse treasury	\$13,030.38
	a. Cost of additions and betterments to water plant since Commission's appraisalment January 30, 1919	\$5,970.70
	b. Cost of additions and betterments to electric properties since Commission's appraisalment June 15, 1920	<u>7,059.68</u>
(2)	To reconstruct 2 miles of line to Foot Hills Hotel using No. 4 and No. 6 wire on 40 foot poles	2,500.00
(3)	To reconstruct 2 miles of 6,600 volt line on 40 foot poles in the east end of Ojai Valley	1,500.00
(4)	To construct new substation	10,000.00
(5)	For future extensions, additions and betterments	<u>4,569.62</u>
		<u>\$ 31,600.00</u>

The testimony of M. W. Phillips shows that the \$13,030.38 which applicant has heretofore expended and for which it now seeks reimbursement was obtained or will be obtained from the following sources:-

From the sale of obsolete electric equipment	\$ 5,970.70
From consumer's advances	3,100.00
From surplus earnings	<u>3,959.68</u>
	<u>\$13,030.38</u>

We are of the opinion that the Commission cannot authorize the reimbursement of the treasury for moneys expended for additions and betterments when such moneys were obtained from the sale of other properties, and when no reduction was made in the capitalization of the company at the time the property was sold. The additions and betterments acquired through the use of the proceeds from the sale of property are a substitution for the property sold.

If stock were issued to reimburse the company because the proceeds from the sale of property were invested in additions and betterments, double capitalization would result. The order herein will authorize applicant to reimburse its treasury out of proceeds from the sale of stock, only to the extent that actual surplus earnings were invested in properties, which surplus earnings are reported at \$3,959.68. The agreement of consumers, above referred to, to take stock for \$3,100.00 of their \$4,511.90 in deposits, provides a reimbursement for them, rather than applicant's treasury.

In addition to these expenditures which have already been made, the company reports that it has become necessary to reconstruct at a net cost of \$4,000.00, two miles of line to Foot Hills Hotel, using No. 4 and No. 6 wire on 40 foot poles and two miles of 6600 volt line in the east end of Ojai Valley; and to expend about \$10,000.00 in the construction of a new substation.

The petition and testimony shows that Ojai Power Company heretofore has purchased electric power from Southern California Edison Company on a contract which provided for the purchase of electric energy at 2200 volts, the substation equipment being owned by the latter company. Southern California Edison Company now offers applicant power on a new rate which contemplates the purchase of power at transmission voltage, which is 15,000 volts. To take advantage of this new rate, applicant must install its own equipment or go on a higher rate. Applicant estimates that it will save approximately \$2,200.00 a year by constructing its own substation and thus enabling it to receive the more favorable rates by taking electric energy at transmission voltage. Applicant has filed as Exhibit "A" attached to its supplemental petition, a detailed statement of the estimated cost of the proposed substation, which estimated cost is \$8,500.00. M. W. Phillips testified that in addition to this amount, about \$1,000.00 would be needed to pay freight and installation charges.

Applicant reports that its business is continually growing and that it has been found necessary to expend from three to six thousand dollars a year to take care of new consumers. It asks that it be permitted to use a portion of the proceeds from the sale of its stock to provide an adequate depreciation reserve with which to make additional extensions from time to time.

The primary function of depreciation reserve is to take care of replacements and such reserve should be built up by appropriations of earnings, and not through the sale of stock. The testimony does not, in our opinion, justify the issue of stock to increase applicant's depreciation reserve. The Commission will, however, at this time authorize applicant to issue stock to pay the cost of additions and betterments hereafter constructed. The proceeds from the sale of such stock must be deposited in a special fund and may be expended only for such purposes as the Commission may authorize in a supplemental order or orders. When applicant desires to withdraw any moneys in the special fund it should file a supplemental application showing the purposes for which it intends to use the proceeds.

O R D E R

OJAI POWER COMPANY having applied to the Railroad Commission for permission to issue stock, a public hearing having been held, and it appearing to the Railroad Commission that the money, property or labor to be procured or paid for by such issue is reasonably required for the purpose or purposes specified herein and that the expenditures for such purpose or purposes are not in whole or in part reasonably chargeable to operating expense or to income.

IT IS HEREBY ORDERED that OJAI POWER COMPANY be, and it is hereby, authorized to issue on or before June 30, 1922, \$31,600.00 (316 shares) of its common capital stock.

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

- 1....\$3,100.00 of the stock herein authorized may be issued at par in re-payment of advances made by consumers, and the remainder shall be sold at par for cash.
- 2... Of the proceeds obtained from the sale of the stock herein authorized, applicant may use not exceeding \$3,959.68 to reimburse its treasury on account of surplus earnings invested in plant, and may use not exceeding \$14,000.00 in the construction of the proposed substation and in the reconstruction of the four miles of line to which reference is made in the preceding opinion. All other proceeds obtained from the sale of the stock herein authorized shall be deposited by applicant in a special bank account to be regarded as a special fund and expended only as hereafter authorized in a supplemental order or orders.
- 3... Applicant 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 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.

Dated at San Francisco, California, this 16th day of December, 1921.

H. B. Bunting
H. D. ...
...
...
Commissioners.