

Decision No. 28298

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
LOS ANGELES GAS AND ELECTRIC CORPORATION }  
for an order authorizing the issuance }  
and sale of \$40,000,000. par value of }  
its first and general mortgage bonds, }  
series of 4's, due 1970. }

Application No. 20201

Le Roy M. Edwards and Neil G. Locke, for applicant.

BY THE COMMISSION:

OPINION

ORIGINAL

In this proceeding the Railroad Commission is asked to make its order authorizing Los Angeles Gas and Electric Corporation to execute an indenture supplemental to its first and general mortgage, and to issue and sell \$40,000,000, of first and general mortgage bonds, series of 4's, due October 1, 1970, for the purpose of redeeming its outstanding bonds and of reimbursing its treasury in part for funds heretofore advanced and/or borrowed for the redemption of bonds on October 1, 1935.

The application shows that as of September 30, 1935 applicant's outstanding bonded indebtedness amounted to \$46,134,000., consisting of the following:-

First and refunding mortgage bonds, 5%, due Sept. 1, 1939 \$4,891,000.  
General and refunding mortgage bonds:

Series D, 6%, due March 1, 1942.....	1,937,500.
Series E, 5½%, due June 1, 1947.....	4,999,500.
Series F, 5½%, due March 1, 1943 .....	3,809,000.
Series G, 6%, due March 1, 1942.....	4,000,000.
Series H, 6%, due March 1, 1942 .....	7,545,000.
Series I, 5½%, due Oct. 1, 1949 .....	8,952,000.

First and general mortgage bonds, 5%, due Sept. 1, 1961 10,000,000.

Total..... \$46,134,000.

In addition applicant had outstanding \$20,000,000. of common stock and \$19,518,300. of 6% preferred stock,

The interest on the company's outstanding bonds for the year ended September 30, 1935 is reported at <sup>2,530,327.50</sup>~~\$2,534,983.76~~. *179m*

The application shows that on October 1, 1935 the company redeemed the \$8,952,000. of Series "I" general and refunding mortgage bonds at a premium of five per cent, using in payment therefor treasury funds, together with the sum of \$2,300,367.74 advanced to it on open account by Pacific Lighting Corporation. It now proposes to call and redeem the remaining \$37,182,000. of its outstanding bonds.

To provide funds to pay the \$2,300,367.74, to reimburse its *179m* treasury for funds used to redeem the \$8,952,000. of Series "I" bonds and to redeem the \$37,182,000. of bonds, applicant asks permission to issue and sell at not less than 99½% of their face value and accrued interest, \$40,000,000. of its first and general mortgage bonds, series of 4's, due October 1, 1970.

Although designated as first and general mortgage bonds, the new issue of \$40,000,000. of bonds will, upon the redemption of the outstanding bonds, be a first lien on the company's properties. Such bonds will be secured by the company's first and general mortgage dated as of September 1, 1926, the execution of which was authorized by Decision No. 17256, dated August 23, 1926, as amended by a supplemental indenture dated as of November 4, 1926, the execution of which was authorized by Decision No. 17617, dated November 12, 1926, as amended by a second supplemental indenture dated as of October 1, 1935, the execution of which is authorized by the order herein. Said \$40,000,000. of bonds will be dated as of October 1, 1935, will bear interest at the rate of 4% per annum, payable semi-annually on the first day of April and the first day of October in each year, will be payable October 1, 1970, and will be callable on any interest payment date at a premium of 7½% if redeemed prior to or during the calendar

year 1940; at a premium of 5% if redeemed during any calendar year thereafter prior to or during the calendar year 1945; at a premium of 2½% if redeemed during any calendar year thereafter prior to or during the calendar year 1950 and thereafter at par. It is provided that

"In the event that any state, municipal corporation or other governmental or political subdivision, district, board or agency within the territorial limits of which the Los Angeles Corporation shall then be operating, shall within any period of twelve months acquire either by condemnation or eminent domain proceedings or by voluntary sale on the part of the Los Angeles Corporation all or any part of the public utility properties of the Los Angeles Corporation and the proceeds received therefrom by the Los Angeles Corporation shall be equal to or exceed the principal amount of bonds then outstanding under the Indenture, then this bond shall become due and payable sixty days after the date of the receipt of the proceeds from such condemnation or sale, after notice by publication at least once a week for four successive weeks in a daily newspaper printed in the English language and published and of general circulation in the Borough of Manhattan, The City of New York, State of New York, and in the City of Los Angeles, State of California, at the principal amount hereof and accrued interest together with a premium of five percentum of the principal amount hereof if such property is condemned or sold prior to or during the calendar year 1945, and at the principal amount hereof and accrued interest plus a sum equal to the premium at which the bonds are then redeemable if such property is condemned or sold after 1945, all upon the conditions and in the manner provided in the Indenture and the Supplemental Indenture dated October 1, 1935. In the event that any such state, municipal corporation or other governmental or political subdivision, district, board or agency shall acquire either by condemnation or eminent domain proceedings or by voluntary sale on the part of the Los Angeles Corporation any portion of the public utility properties of the Los Angeles Corporation and the proceeds received therefrom by the Los Angeles Corporation shall be less than the principal amount of bonds then outstanding under the Indenture, then this bond and/or other bonds issued under the Indenture, in principal amount not exceeding the price paid for the properties so acquired, may, at the option of the Los Angeles Corporation within One Hundred Twenty days after the receipt of the proceeds derived from such properties, be declared due and payable, in amounts aggregating not less than One Hundred Thousand Dollars at the principal amount thereof and accrued interest, together with a premium of five percentum of the principal amount thereof if so declared due and payable prior to or during the calendar year 1945, and at the principal amount thereof and accrued interest plus a sum equal to the premium at which the bonds are then redeemable if any part of such property is condemned or sold after 1945, in each case after notice by publication at least once a week for four successive weeks in a daily newspaper printed in the English language and published and of general circulation in the Borough of Manhattan, The City of New York, State of New York, and in the City of Los Angeles, State of

California, all upon the conditions and in the manner provided in the Indenture and the Supplemental Indenture dated October 1, 1935. "

With the redemption of the Series "I" bonds the company, upon its application being made, received permission from this Commission by Decision No. 28170, dated August 12, 1935, to amortize over a five year period the redemption premiums paid amounting to \$447,600. and the balance of the discount and expense remaining unamortized on October 1, 1935, amounting to \$306,757.71. In connection with the remaining bonds outstanding the company reports that there will be on its books at the various dates of redemption, unamortized discount and expense of \$886,379.57 and that the redemption premiums that must be paid will aggregate \$1,961,787.50, the two items amounting to a total of \$2,848,167.07. Instead of writing the amounts off to profit and loss immediately upon redemption, the company desires, and accordingly asks permission, to amortize the same over a five year period beginning, as to the premiums to be paid, with the commencement of publication of the notice of redemption and as to the remaining unamortized discount and expense, with the date of redemption.

It is of course obvious that the company upon the redemption of the bonds must make up the unamortized discount and expense and pay the premium applicable to the bonds redeemed. The amortization of such discount, expense and premium during the ensuing five years will not call for any cash disbursement during that period. The effect of the amortization is to appropriate earnings to replace the moneys now paid out on account of the said discount, expense and premium.

If the company's request is considered purely as a matter of accounting convenience it may be granted. The order herein relating to the manner in which accounting entries may be made is permissive

only and should not be taken as depriving the Commission of the power to withdraw its approval at any time or as binding it to the acceptance of such accounting entries if involved in other proceedings. We do not believe, for example, that the redemption premiums, and the balances of the unamortized discount and expense to be spread over the five year period, nor the duplicate interest charges to be suffered by the company, which duplicate interest charges should be charged to the income account during the year in which they were incurred, should in the future be considered as part of the cost of money to applicant.

#### O R D E R

Los Angeles Gas and Electric Corporation having applied to the Railroad Commission for permission to execute a supplemental indenture and to issue and sell \$40,000,000. of bonds, and the Commission being of the opinion that this is not a matter in which a public hearing is necessary, that the application should be granted, as herein provided, and that the money, property or labor to be procured or paid for through the issue of the bonds is reasonably required for the purpose specified herein, and that the expenditures for such purpose are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED as follows:-

1. Los Angeles Gas and Electric Corporation may execute a supplemental indenture, dated as of October 1, 1935, to its first and general mortgage, substantially in the same form as the supplemental indenture filed in this proceeding as Exhibit "D", provided that the authority herein granted is for the purpose of this proceeding only, and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said supplemental indenture as to such other

legal requirements to which said supplemental indenture may be subject.

2. Los Angeles Gas and Electric Corporation may, after the effective date hereof and on or before February 29, 1936, issue and sell for not less than 99½% of face value plus accrued interest, \$40,000,000. of its first and general mortgage bonds, Series of 4's, due October 1, 1970, and use the proceeds, other than accrued interest which may be used for general corporate purposes, to finance in part the cost of redeeming in lawful money of the United States of America, the \$37,182,000. of bonds outstanding on September 30, 1935 and referred to in the foregoing opinion, pay other indebtedness and reimburse its treasury because of income used to redeem bonds.
3. Los Angeles Gas and Electric Corporation, pending the preparation and delivery of definitive bonds, may execute, authenticate and deliver in lieu thereof, temporary bonds, such temporary bonds to be issued and sold under the same terms and conditions as the bonds herein authorized.
4. Decision No. 11353, dated December 13, 1922, and Decision No. 12691, dated October 13, 1923, are hereby modified so as to permit Los Angeles Gas and Electric Corporation, unless and until otherwise directed, to charge to Account 131-Unamortized debt discount and expense- the premium of \$1,961,787.50 that must be paid upon the redemption of the aforesaid \$37,182,000. of bonds and amortize said premium and the unamortized debt discount and expense applicable to said bonds over the five year periods mentioned in the petition filed in this proceeding.
5. Los Angeles Gas and Electric Corporation shall keep such record of the issue, sale and delivery of the bonds 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 insofar as applicable, is made a part of this order.

6. Los Angeles Gas and Electric Corporation shall file with the Commission on or before July 31, 1936 a statement showing in detail the expenses incurred by it because of the issue and sale of said \$40,000,000. of bonds.
7. Los Angeles Gas and Electric Corporation shall file on or before December 31, 1935 two copies as executed, of the supplemental indenture herein authorized to be executed.
8. The authority herein granted will become effective when Los Angeles Gas and Electric Corporation has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Four Thousand Three Hundred Fifty-four and Fifty One Hundredths (\$4,354.50) Dollars, and when said Los Angeles Gas and Electric Corporation has filed with the Commission a complete copy of the registration statement filed with Securities and Exchange Commission.

DATED at San Francisco, California, this 24<sup>th</sup> day of October, 1935.

*Fee \$4,354 <sup>50</sup>/<sub>100</sub>*  
RAILROAD COMMISSION  
OCT 24 1935  
*A. Mathison*  
*Fee # 31652*

*Leon A. Whaley*

*M. B. Lewis*

*Stuart D. Smith*

Commissioners.