

Decision No. 33649

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of
CALIFORNIA-PACIFIC UTILITIES COMPANY

for an order authorizing it to make, execute and deliver its First Supplemental Indenture dated as of September 1, 1940, to Bank of America National Trust and Savings Association, as corporate Trustee and William C. Koenig (successor to W. J. Kieferdorf) as individual Trustee; and to issue and sell \$1,000,000 principal amount of its First Mortgage Bonds, Series B 4%, due 1960.

ORIGINAL

Application No. 23730

Orrick, Dahlquist, Neff & Herrington,
by T. W. Dahlquist and Charles L. Barnard,
for applicant.

BY THE COMMISSION:

O P I N I O N

This is an application by California-Pacific Utilities Company for an order of the Railroad Commission authorizing it to make, execute and deliver its First Supplemental Indenture, dated as of September 1, 1940, to Bank of America National Trust and Savings Association, as corporate trustee, and William C. Koenig, (successor to W. J. Kieferdorf), as individual trustee, to further secure the payment of its bonds, and to issue and sell to John Hancock Mutual Life Insurance Company, at their face value and accrued interest, \$1,000,000 of its First Mortgage Bonds, Series B, 4% due September 1, 1960, for the purpose of paying indebtedness and reimbursing its treasury because of income expended for additions and betterments.

California-Pacific Utilities Company is a corporation

organized, on or about May 7, 1928, under the laws of the State of California under the name of Southern Oregon Gas Corporation. Under an agreement of merger there were merged with and into it, during 1938, California Utilities Company, Needles Gas and Electric Company and Weaverville Electric Company, and its name was changed to the present one. At this time it is engaged in operating, in California, water systems in Benicia and Susanville, electric systems in Weaverville, Susanville and Needles, and a gas system and telephone plant in Needles; in Oregon, gas systems in Klamath Falls, Ashland, Medford, Grants Pass, Phoenix, Talent and Roseburg, and in Nevada, an electric system in Searchlight and the Nelson Mining District. For 1939, it reports its gross revenues at \$358,293.32 from California operations, at \$146,658.25 from Oregon operations and at \$33,740.33 from Nevada operations; a total of \$538,692.40.

As of September 1, 1940, the company reports its assets and liabilities as follows:

	<u>ASSETS AND OTHER DEBITS</u>	
<u>Utility Plant</u>		
Electric plant	\$1,072,751.23	
Gas plant	733,184.54	
Water plant	747,537.31	
Other utility plant	69,346.59	
Organization	13,630.85	
Construction work in progress	<u>59,450.38</u>	\$2,695,900.90
<u>Other investment and fund accounts.</u>		15,620.76
<u>Current and accrued assets.</u>		
Cash and deposits	\$ 36,402.06	
Notes and accounts receivable	36,058.67	
Materials and supplies	68,484.88	
Prepayments	<u>7,605.49</u>	\$ 198,551.10
<u>Deferred debits</u>		
Unamortized debt discount and expense	16,925.76	
Extraordinary property losses	167,441.36	
Clearing accounts	(533.43)	
Retirement work in progress	(787.74)	
Other deferred debits	<u>5,107.28</u>	\$ 188,153.23
<u>TOTAL ASSETS AND OTHER DEBITS</u>		<u>\$3,093,225.99</u>
<u>(Red Figures)</u>		

LIABILITIES AND OTHER CREDITS

Capital Stock		
Common	\$129,000.00	
First preferred	425,000.00	
Second preferred	<u>669,000.00</u>	\$1,223,000.00
Long-term debt		
Bonds and notes	\$779,500.00	
Miscellaneous	<u>9,147.61</u>	788,647.61
Current and accrued liabilities		
Notes payable	\$111,000.00	
Accounts payable	40,932.29	
Customers' deposits	11,083.51	
Interest and taxes accrued	32,761.14	
Other	<u>14,529.53</u>	210,306.47
Deferred credits		5,017.36
Reserves		
Depreciation	\$547,922.55	
Uncollectible accounts	6,037.93	
Other	<u>731.23</u>	554,691.71
Contributions in aid of construction		14,761.44
Capital surplus		146,804.91
Earned surplus		<u>154,996.49</u>
TOTAL LIABILITIES AND OTHER CREDITS		<u>\$3,098,225.99</u>

The long-term debt and notes payable referred to in the balance sheet consist of the following:

<u>Long-term debt -</u>	
First mortgage bonds, series A, 5% due 1958	\$535,000.00
Needles Gas and Electric Company, first mortgage 7% bonds, due 1944	156,500.00
Mortgage note in favor of Frank P. and L. R. Cady, 6%, due 1944	<u>83,000.00</u>
Subtotal	<u>\$779,500.00</u>
Mortgage note in favor of Medford Federal Savings and Loan Association, 7%, due monthly	4,147.61
Mortgage note in favor of Fruit Growers Supply Company, 5%, due 1940	<u>5,000.00</u>
Total long-term debt	<u>\$788,647.61</u>
<u>Notes Payable -</u>	
In favor of Niagara Share Corp., 5% demand	25,000.00
In favor of Niagara Share Corp., 5% demand	50,000.00
In favor of Bank of America, 5%, due 1942	<u>36,000.00</u>
Total notes payable	<u>\$111,000.00</u>
Grand Total	<u>\$899,647.61</u>

The company now proposes to create and to issue and sell a new series of bonds, known as First Mortgage Bonds, Series B, 4%, due September 1, 1960, in the total amount of \$1,000,000 and to use \$874,647.61 of the proceeds to discharge its outstanding long-term debt and notes payable (being the entire amount as of September 31, 1940, excepting the \$25,000 note in favor of Niagara Share corporation) and to use the remaining \$125,352.39 of the proceeds to reimburse its treasury because of surplus earnings used since January 1, 1938 to pay indebtedness and to finance the cost of additions and betterments to its plants and properties.

The application shows that since January 1, 1938, the company has reduced its notes by the sum of \$26,380.09 and has expended for additions and betterments the sum of \$526,937.37, including certain expenditures made prior to January 1, 1938, in connection with its transmission line between Boulder Dam and Needles, and other uncompleted construction in progress on January 1, 1938. It is alleged that with the exception of ~~\$160,000~~ ^{\$160,000} obtained through the issued notes and bonds, such expenditures have been provided from income or from other moneys in its treasury for which it has not been reimbursed through the issue of securities. It is of record in this proceeding that the company has need of reimbursement in the amount indicated so as to enable it to obtain funds to discharge the outstanding note for \$25,000, referred to above, which was issued to pay current obligations; to provide the call premiums of \$29,380 on its presently outstanding bonds; to pay estimated expenses of \$20,000 attendant upon the new bond issue and other expenses; and to provide, in part, the cost of capital additions, estimated at \$100,000, to be installed during 1941.

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With the conclusion of the present program, then, applicant will have outstanding \$1,000,000 of bonds and no other long term indebtedness or notes payable and should have on hand sufficient funds to improve materially its cash position and to enable it to meet its construction and other requirements. A review of the company's financial statements, as well as the testimony of Edward A. Grens, its Vice President and Treasurer, indicates that in the past the company has had an unfavorable cash position with a deficiency of working capital. The issue of the bonds in the amount and for the purposes indicated herein, accord-

ingly, in our opinion, should be authorized.

The new bonds will be dated September 1, 1940, will bear interest from that date at the rate of 4% per annum, payable semi-annually, and will mature September 1, 1960. The bonds may be redeemed at the option of the company on any interest payment date prior to maturity at the principal amount thereof and accrued interest, plus a premium of 5%, if redeemed before August 31, 1943, and if redeemed after August 31, 1943, and before maturity, plus a premium of 5% less one-fourth of 1% for each year or fraction of a year elapsed after August 31, 1943. The bonds are subject to redemption on any interest payment date for sinking fund purposes at a premium of 1% if so redeemed before August 31, 1959, and a premium of three-fourths of 1% if so redeemed after August 31, 1959 and prior to maturity.

To provide for the creation of the new series of bonds now to be issued, applicant proposes to execute its First Supplemental Indenture, dated as of September 1, 1940, supplementary to and modifying its Mortgage of Chattels and Trust Indenture dated as of January 1, 1938. The instrument will provide, among other things, for an annual sinking fund payment by the company in an amount equal to two (2%) per cent of the Series B bonds at any time issued, whether or not outstanding. The company will further covenant to expend, during each calendar year, a sum equal to 15% of its gross operating revenues for maintenance, repairs, renewals and replacements or, in the event of its failure to expend such sum for said purposes, to pay to the corporate trustee a sum equal to the amount of the deficiency, less certain credits as provided in the indenture. Under the terms of the supplemental indenture

no bonds, other than the \$1,000,000 of bonds now proposed to be issued, may hereafter be authenticated and delivered upon the basis of any additional property acquired or constructed on or before August 31, 1940, or upon the basis of the deposit or retirement of any refundable bonds or of any bonds of another series outstanding on August 31, 1940. We find the supplemental indenture to be in satisfactory form.

Applicant's balance sheet on a preceding page shows extraordinary property losses of \$167,441.36. This sum represents moneys expended for properties no longer in service. The amount has been eliminated from the balance sheet attached to the bond sale agreement. Applicant agreed that it would adjust its books and records by charging to its capital surplus account, on or before December 31, 1940, the sum of \$125,011.44 and write off the remainder (\$42,429.92) in annual charges of about \$3,200 to capital surplus or to Account 537, "Miscellaneous Amortization." At no time will applicant claim any part of said extraordinary property losses for rate making or other state regulatory purposes.

The testimony shows that applicant will charge to earned surplus its unamortized debt discount and expense and the premium it must pay on the bonds it will redeem. It further appears that applicant will not be called upon to pay any finder's fee or commission incident to the sale of the bonds.

O R D E R

California-Pacific Utilities Company, having applied to the Railroad Commission for an order authorizing it to execute an indenture and to issue and sell \$1,000,000 of bonds, a public hearing having been held before Examiner Faulkhauser, and the Railroad Commission being of the opinion that the application should be

granted, as herein provided, that the money, property or labor to be procured or paid for through the issue of said bonds is reasonably required for the purposes specified herein and that the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore

IT IS HEREBY ORDERED that California-Pacific Utilities Company be, and it hereby is, authorized to make, execute and deliver a first supplemental indenture, dated as of September 1, 1940, in, or substantially in, the form of the first supplemental indenture filed with the Commission in this proceeding on October 28, 1940, provided that the authority herein granted is for the purpose of this proceeding only and is given only insofar as this Commission has jurisdiction under the Public Utilities Act, and is not intended as an approval of said indenture as to such other legal requirements to which it may be subject.

IT IS HEREBY FURTHER ORDERED that California-Pacific Utilities Company be, and it hereby is, authorized to issue and sell, after the effective date hereof and on or before December 31, 1940, at not less than the face value thereof plus accrued interest, \$1,000,000 of its First Mortgage Bonds, Series B, 4%, due September 1, 1960, and to use \$874,647.61 of the proceeds, or such lesser amount as may be necessary, to pay outstanding bonds and other long-term debt and notes, as set forth in the application, and to use the remaining proceeds to reimburse its treasury/^{because}of earnings used in retiring outstanding indebtedness and of financing the cost of additions and betterments to its plants and properties.

IT IS HEREBY FURTHER ORDERED that within thirty (30) days after the execution of the first supplemental indenture herein authorized to be executed, California-Pacific Utilities Company shall file with the Railroad Commission two certified copies of said first supplemental indenture.

IT IS HEREBY FURTHER ORDERED that California-Pacific Utilities Company shall file with the Commission, on or before February 15, 1941, a report showing the expenses incurred by it in connection with the issue and sale of said \$1,000,000 of bonds and the accounts to which it charged said expenses.

IT IS HEREBY FURTHER ORDERED that the authority herein granted will become effective when applicant has paid the fee prescribed in Section 57 of the Public Utilities Act, which fee is one hundred eighty-five (\$185.00) dollars.

IT IS HEREBY FURTHER ORDERED that California-Pacific Utilities Company shall file with the Railroad Commission a verified report or reports as required by the Commission's General Order No. 24-A, which order insofar as applicable, is made a part of this order.

Dated at San Francisco, California, this 2nd day of November 1940.

Donald W. Brown
Robert H. ...
J. Baker
Justice J. ...

