

Decision No. 24262

**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

COAST COUNTIES GAS AND ELECTRIC  
COMPANY, a corporation,

for an order authorizing applicant  
(1) to issue its First Mortgage Bonds,  
3-1/4%, of the par value of not more  
than \$3,500,000, (2) to sell such bonds  
up to a value of \$3,500,000, and to use  
the proceeds for the purpose and in  
the manner specified in this petition,  
and (3) to execute a trust indenture  
covering certain of its properties to  
secure said bonds.

Application  
No. 24262

Pillsbury, Madison and Sutro, by  
Felix T. Smith and M. D. L. Fuller for Applicant

BY THE COMMISSION:

O P I N I O N

In this proceeding, the Railroad Commission is asked to enter its order authorizing Coast Counties Gas and Electric Company, hereinafter some times referred to as applicant, to issue and sell \$3,500,000 of its First Mortgage Bonds, 3-1/4% Series due in 1971, for the purposes hereinafter stated, to execute a trust indenture to secure the payment of its bonds, and to amortize debt discount, expense and premium over a period subsequent to the date of redemp-

tion of its outstanding bonds.

Applicant is a California corporation engaged as a public utility in distributing natural gas, butane gas, electricity and water in California. For the year 1940, its operating revenues are reported at \$3,454,679.83, segregated as follows:

Electric revenues	\$1,667,697.32
Gas revenues	1,736,128.68
Water revenues	50,853.83

Applicant's total operating expenses for all departments, including depreciation and taxes, are reported at \$2,775,743.74, and its net income from operations at \$678,936.09. Adding to the latter amount its other income of \$1,630.82, results in a gross corporate income of \$680,566.91 which is the amount applicant had available for the payment of interest, amortization of debt discount and expense, payment of preferred and common stock dividends, and accretions to its earned surplus.

As of April 30, 1941, applicant's balance sheet shows assets and liabilities as follows:

ASSETS

FIXED ASSETS:

Utility Property Plant and Equipment	\$13,305,636.27
Intangibles and Franchises	132,810.66
Organization Expense	196,900.69
Construction Work in Progress	203,406.35
Total Fixed Assets	<u>\$13,843,953.97</u>

INVESTMENT AND FUND ACCOUNTS:

Other Physical Property	14,036.19
Other Investments	10,745.59
Total Investment and Fund Accounts	<u>24,781.78</u>

CURRENT AND ACCRUED ASSETS:

Cash	233,576.29
Special Deposits	8,136.96
Working Fund	5,965.00
Notes Receivable	307.49
Accounts Receivable - Trade	362,133.47
Accounts Receivable - Other	6,986.86
Receivables from Associated Companies	240.07
Materials and Supplies	252,970.70
Prepaid Taxes	39,722.79
Prepaid Insurance	16,670.59
Prepaid Expense	503.39
Total Current & Accrued Assets	<u>927,213.61</u>

DEFERRED DEBITS:

Unamortized Debt Discount and Expense	259,788.82
Extraordinary Property Losses	113,345.87
Clearing Accounts	1,608.30
Retirement Work in Progress	10,019.87
Total Deferred Debits	<u>384,762.86</u>

CAPITAL STOCK DISCOUNT AND EXPENSE:

Capital Stock Expense (5% First Preferred)	23,915.38
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REACQUIRED SECURITIES:

Reacquired Long-Term Debt	20,000.00
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TOTAL ASSETS -	<u>\$15,224,627.60</u>
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LIABILITIES

<u>CAPITAL STOCK:</u>	
5% First Preferred - Cumulative	\$ 3,750,000.00
Common	3,620,000.00
Total Capital Stock	<u>\$ 7,370,000.00</u>
<u>LONG TERM DEBT:</u>	
First Mortgage 4% Series "B" Bonds 1965	4,000,000.00
Less Issued But Not Sold	<u>1,000,000.00</u>
Total Long Term Debt	<u>3,000,000.00</u>
<u>CURRENT AND ACCRUED LIABILITIES:</u>	
Accounts Payable	61,537.14
Payable to Associated Companies	54,504.85
Customers Deposits	33,446.50
Taxes Accrued	238,248.49
Interest Accrued	19,866.67
Other Current and Accrued Liabilities	48,411.51
Accrued Pay roll	<u>22,704.28</u>
Total Current and Accrued Liabilities	<u>478,719.44</u>
<u>DEFERRED CREDITS:</u>	
Customers' Advances for Construction	56,729.41
Other Deferred Credits	<u>418.83</u>
	<u>57,178.24</u>
<u>RESERVES:</u>	
Depreciation	3,753,909.41
Uncollectible Accounts	11,163.06
Injuries and Damages	38,019.32
Employees' Provident Reserve	33,631.10
Other Reserves	<u>23,437.50</u>
	<u>3,860,160.39</u>
CONTRIBUTION IN AID OF CONSTRUCTION	26,977.53
EARNED SURPLUS	<u>431,592.00</u>
TOTAL LIABILITIES	<u>\$15,224,627.60</u>

Applicant has outstanding in the hands of the public, \$2,980,000 First Mortgage 4% bonds. These bonds are dated September 1, 1935 and mature September 1, 1965. In the trust indenture securing the payment of the bonds, applicant reserves the right to redeem said bonds upon sixty days' notice, in whole or in part, prior to their

maturity. Applicant has concluded to redeem said First Mortgage 4% bonds on September 1, 1941. In doing so, it must pay the principal thereof, the accrued interest, and a premium of 6% of the principal amount of the bonds.

To obtain funds to effect the redemption of its outstanding 4% bonds and to reimburse its treasury and pay expenses incident to the issue of new bonds, applicant asks permission to issue and sell at 104-3/4% of their face value and accrued interest, \$3,500,000 of First Mortgage Bonds, 3-1/4% Series due 1971. The \$3,500,000 of bonds will be sold privately. \$1,500,000 of said bonds will be acquired by the John Hancock Mutual Life Insurance Company and \$2,000,000 by The Mutual Life Insurance Company of New York. Applicant will realize from the sale of said bonds, \$3,666,250. It proposes to use these proceeds for the following purposes:

To pay outstanding 4% bonds -	\$2,980,000
To pay premium on said 4% bonds -	178,800
To pay expenses incident to the issue of said 3-1/4% bonds -	31,580
To reimburse applicant's treasury -	<u>475,870</u>

In Exhibit "D," applicant reports that it has expended from its treasury for capital purposes the sum of \$484,744.36. However, its balance sheet shows an earned surplus of \$431,592. The record is not conclusive that applicant is entitled to have its treasury reimbursed in the amount of \$484,744.36. But the testimony shows that applicant is in need of funds to carry forward its 1941 construc-

tion program as outlined generally in its Exhibit 3 and that the increase in its bonded indebtedness from \$2,980,000 to \$3,500,000 is justified.

As indicated, applicant has agreed to sell its 3-1/4% bonds at 104-3/4% of their face value plus accrued interest. It proposes to credit to balance sheet Account 240, Unamortized Premium on Debt, the premium which it will receive upon the sale of said bonds, amounting to \$166,250, less the expenses incident to issue and sale of said bonds, which are estimated at \$31,580, and thereafter to amortize such amount over the life of the 3-1/4% bonds by credits to income Account 532, Amortization of Premium on Debt-Credit. This procedure is satisfactory to the Commission.

The testimony shows that as of April 30, 1941, applicant's unamortized debt discount and expense was carried on its balance sheet at \$259,788.82. To this amount it proposes to add the premium of \$178,800 which it will have to pay upon the redemption of its 4% bonds. It proposes to deduct from this total, forthwith, an amount equivalent to the savings in income taxes it will enjoy as a result of its proposed refinancing, less an amount equivalent to its duplicate interest charges, and thereafter to amortize the balance on or before September 1, 1965, the maturity date of its 4% bonds, by charges to income Account 531, Amortization of Debt Discount and Expense.

It is of record that the duplicate interest will be charged to income Account 530, Interest on Long-Term Debt.

Obviously, only income taxes that applicant must pay should be charged to income Account 507, Taxes.

We have no objection if applicant, for accounting convenience, charges to unamortized debt discount and expense the premium it will be called upon to pay in order to redeem its outstanding 4% bonds, and if it thereafter amortizes such sum, together with the remaining unamortized debt discount and expense now on its books, on or before September 1, 1965, or if it charges to surplus forthwith such sum, or a portion thereof, equal in amount to its estimated tax savings less duplicate interest. We reserve the right to determine, hereafter, if the charges to unamortized debt discount and expense pertaining to the 4% bonds are properly includible in the cost of money obtained through the issue of the new 3-1/4% bonds.

Applicant asks permission to execute a first mortgage indenture substantially in the same form as the First Mortgage Indenture filed in this proceeding as Exhibit "C." We have reviewed this indenture and will authorize its execution subject to the provisions of the following order:

#### O R D E R

A public hearing having been held on the above entitled application before Examiner Fankhauser and the Commission having considered the evidence submitted at such hearing and it being of the opinion that the money, property or labor to be procured or paid for by the issue of said

\$3,500,000 of First Mortgage Bonds, 3-1/4% Series due in 1971, by Coast Counties Gas and Electric Company is reasonably required by said Coast Counties Gas and Electric Company for the purposes herein stated, that the expenditures for said purposes, except the payment of expenses incident to the issue of said bonds, are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted, as provided in this order, therefore,

IT IS HEREBY ORDERED as follows:

1. Coast Counties Gas and Electric Company, may, after the effective date hereof and prior to October 1, 1941, execute a first mortgage indenture substantially in the same form as the first mortgage indenture filed in this proceeding as Exhibit "C," provided that the authority herein granted to execute said first mortgage indenture 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 first mortgage indenture as to such other legal requirements to which said first mortgage indenture may be subject, and, provided further, that said authority does not relieve Coast Counties Gas and Electric Company from the obligation of keeping its books and accounting records in the manner prescribed by the Railroad Commission nor from the obligation of filing with the Railroad Commission applications for permission to issue bonds in addition to those herein authorized to be issued.



2. Coast Counties Gas and Electric Company may, after the effective date hereof and prior to October 1, 1941, issue and sell at not less than 104-3/4% of the principal amount thereof plus accrued interest, \$3,500,000 of First Mortgage Bonds, 3-1/4% Series due in 1971.

3. Coast Counties Gas and Electric Company shall use the proceeds realized from the issue and sale of said \$3,500,000 of First Mortgage Bonds, 3-1/4% Series due in 1971, to pay and discharge its outstanding \$2,980,000 of First Mortgage 4% Bonds; to pay expenses incident to the issue of said \$3,500,000 of First Mortgage Bonds, 3-1/4% Series due in 1971; to reimburse its treasury on account of income expended for additions and betterments to its properties and to finance construction expenditures set forth in Exhibit 3 filed in this proceeding.

4. Within thirty (30) days after the execution of said first mortgage indenture herein authorized to be executed, Coast Counties Gas and Electric Company shall file with the Railroad Commission two certified copies of said first mortgage indenture.

5. Coast Counties Gas and Electric Company shall file with the Railroad Commission reports in compliance with the Commission's General Order No. 24-A, which order insofar as applicable is made a part of this order.

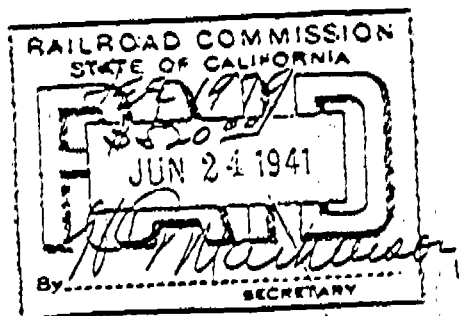
6. Coast Counties Gas and Electric Company shall file with the Railroad Commission, on or before November 1,

1941, a statement showing in detail its expenses incident to the issue and sale of said \$3,500,000 of First Mortgage Bonds, 3-1/4% Series due in 1971.

7. The authority herein granted will become effective when Coast Counties Gas and Electric Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Five Hundred and Twenty (\$520.00) Dollars.

IT IS HEREBY FURTHER ORDERED that Decision No. 30269, dated October 25, 1937, as amended by Decision No. 30339, dated November 15, 1937, is hereby modified so as to permit Coast Counties Gas and Electric Company to amortize, on or before September 1, 1965, the bond discount, expense and premium referred to in the foregoing opinion, provided, that the Commission reserves the right to determine hereafter whether the charges necessary to amortize said discount, expense and premium should be included in the cost of money to said Coast Counties Gas and Electric Company.

Dated at San Francisco, California, this 24<sup>th</sup> day of June, 1941.



*[Signature]*  
*[Signature]*  
*Justus F. Calver*  
*Francis D. Havenner*  
*[Signature]*  
Commissioners.