

Decision No. 37221

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 (a) to assume \$309,000 principal amount of bonds of Western States Utilities Company; (b) to incur temporary indebtedness in the amount of \$225,000; (c) to make, execute and deliver its new Trust Indenture to be dated as of July 1, 1944, to Bank of America National Trust and Savings Association and William C. Koenig, as Trustees; and (d) to issue and sell \$1,600,000 principal amount of its First Mortgage Bonds, Series A, 3-1/2%, due 1969.

ORIGINAL

Application
No. 26199

Orrick, Dahlquist, Neff, Brown & Herrington, by
T. W. Dahlquist, for Applicant.

BY THE COMMISSION:

O P I N I O N

California-Pacific Utilities Company has entered into an agreement to purchase at a cost of \$534,000, subject to adjustments, the properties of Western States Utilities Company, a Delaware corporation, which owns and operates as a public utility, electric and water plants in Winnemucca,

Nevada, and vicinity; an electric plant and system in Malad, Idaho, and vicinity, and an electric plant in Cokeville, Wyoming, and vicinity. To consummate the transaction, California-Pacific Utilities Company asks permission to incur a temporary indebtedness of \$225,000 and assume the payment of \$309,000 of First Mortgage $4\frac{1}{2}\%$ bonds issued by Western States Utilities Company, hereinafter sometimes referred to as Western. The bonds are due September 1, 1959. California-Pacific Utilities Company further asks permission to issue \$1,600,000 of $3\frac{1}{2}\%$ bonds, due July 1, 1969, for the purpose of refunding its outstanding \$1,000,000 of 4% bonds, due September 1, 1960; to refund said \$309,000 of Western bonds; pay said temporary loan of \$225,000, and provide itself with additional funds for the improvement of its properties. It also asks permission to execute a trust indenture to secure the payment of its bonds.

California-Pacific Utilities Company, hereinafter sometimes referred to as Applicant, owns and operates in California, a public utility water system in Benicia and vicinity, a public utility electric system in Weaverville and vicinity, a public utility electric system and water plant in Susanville and vicinity, and public utility electric, gas and telephone systems in Needles and vicinity. In Oregon, it owns public utility gas systems in Ashland, Grants Pass, Klamath Falls, La Grande, Medford, Phoenix, Roseburg, and Talent. In Nevada, it owns a public utility electric system in the Nelson Mining District, and in Searchlight and vicinity. It also is engaged in the nonutility sale at wholesale of butane air gas in Washington, Idaho and Arizona.

As of May 1, 1944, Applicant reports assets and liabilities as follows:

| <u>Assets</u> | | |
|--------------------------------------|-------------------|-----------------------|
| Utility Plant | | \$3,176,059.30 |
| Electric Plant | \$1,218,470.05 | |
| Gas Plant | 819,041.98 | |
| Water Plant | 974,051.23 | |
| Other Utility Plant | 134,032.37 | |
| Construction Work in Progress | <u>30,463.67</u> | |
| Miscellaneous Investments | | 8,499.36 |
| Current and Accrued Assets | | 346,788.15 |
| Cash | 114,961.48 | |
| Special Deposits | 975.00 | |
| Working Funds | 2,250.00 | |
| Temporary Cash Investments | 45,000.00 | |
| Accounts Receivable | 98,981.03 | |
| Interest and Dividends Receivable | 137.00 | |
| Rents Receivable | 1,000.00 | |
| Materials and Supplies | 58,508.77 | |
| Prepayments | 13,492.37 | |
| Other Current and Accrued Assets | <u>11,482.50</u> | |
| Deferred Debits | | 15,181.55 |
| Unamortized Debt Discount & Expense | 10,643.82 | |
| Other Deferred Debits | <u>4,537.73</u> | |
| Total Assets | | <u>\$3,546,528.36</u> |
| <u>Liabilities</u> | | |
| Capital Stock | | \$1,223,000.00 |
| Common | \$798,000.00 | |
| Preferred, 5% Cumulative | <u>425,000.00</u> | |
| First Mortgage Bonds | | 1,000,000.00 |
| Current and Accrued Liabilities | | 160,790.46 |
| Accounts Payable | 35,642.15 | |
| Dividends Declared | 45.00 | |
| Customers Deposits | 15,378.72 | |
| Taxes Accrued | 99,628.27 | |
| Interest Accrued | 7,312.16 | |
| Other Current & Accrued Liabilities | <u>2,784.16</u> | |
| Customers Advances for Construction | | 44,680.13 |
| Reserves | | 663,758.44 |
| Depreciation Reserves | 659,077.92 | |
| Reserve for Uncollectible Accts. | <u>4,680.52</u> | |
| Contributions in Aid of Construction | | 17,125.70 |
| Surplus | | 437,173.63 |
| Capital Surplus (Deficit) | 20,636.45 | |
| Earned Surplus | <u>457,810.08</u> | |
| Total Liabilities | | <u>\$3,546,528.36</u> |

For the three years ending December 31, 1943, Applicant reports operating revenues, operating expenses, and net income as follows:

| | <u>1941</u> | <u>1942</u> | <u>1943</u> |
|--|---------------------|---------------------|---------------------|
| Operating Revenue | \$680,528.94 | \$813,913.53 | \$908,185.07 |
| <u>Operating Revenue Deductions</u> | | | |
| Operating Expenses | 385,877.47 | 469,034.84 | 532,182.19 |
| Depreciation | 56,427.10 | 52,430.09 | 53,502.31 |
| Taxes | 84,517.29 | 122,139.99 | 133,389.77 |
| Total Operating Deductions | <u>526,821.86</u> | <u>643,604.92</u> | <u>719,074.27</u> |
| Utility Operating Income | \$153,707.08 | \$170,308.61 | \$189,110.80 |
| <u>Other Income</u> | | | |
| Income from Mdse., Jobbing and Construction | 3,019.64 | 9,990.84 | 4,341.64 |
| Income from Nonutility Operation | 119.15* | 1,813.65 | 519.78 |
| Revenue from Lease of Other Physical Property | 808.00 | 454.00 | 535.00 |
| Interest Revenue | 311.63 | 503.75 | 57.50 |
| Nonoperating Revenue Deductions | <u>98.52*</u> | <u>395.59*</u> | <u>404.29*</u> |
| Total Other Income | 3,921.60 | 12,366.65 | 5,049.63 |
| Gross Income | \$157,628.68 | \$182,675.26 | \$194,160.43 |
| <u>Income Deductions</u> | | | |
| Interest on Long-Term Debt | 40,000.00 | 40,000.00 | 40,000.00 |
| Other Interest Charges | 1,433.84 | 19,823.10 | 20,506.33 |
| Interest Charged to Construction | 394.42* | 403.63* | 984.90* |
| Amortization of Debt Discount and Expense | 629.31 | 651.60 | 651.60 |
| Miscellaneous Income Deductions | <u>989.00</u> | <u>1,691.41</u> | <u>1,407.09</u> |
| Total Income Deductions | 42,657.73 | 61,762.48 | 61,580.12 |
| Net Income | <u>\$114,970.95</u> | <u>\$120,912.78</u> | <u>\$132,580.31</u> |

*Red Figures

At the time of the filing of this application, Western had outstanding \$309,000 of 4½% bonds, due September 1, 1959. The agreement recites that applicant will assume the payment of these bonds and make a cash payment to Western of \$225,000. Since the filing of the application Western has retired \$12,000 of bonds through the operation of the sinking fund, with the result that there are now \$297,000 of Western bonds outstanding. Applicant, because of the \$12,000 bond redemption, will increase the cash payment to \$237,000. In addition, applicant will pay Western the book cost of all new and/or usable materials, supplies, and merchandise on hand at the closing date.

Applicant will obtain the \$237,000 through the issue of a 3% note, payable on or before 120 days after date. Under the provisions of the Public Utilities Act, applicant, in our opinion, may issue such note without Railroad Commission authorization.

The properties of Western are recorded on its books, as of December 31, 1943, at \$892,795.15. The reserve for depreciation is reported at \$159,193.23. It is admitted that said \$892,795.15 does not in all cases represent the original cost of the properties to the persons first devoting them to public service. No original cost studies have been presented. It is applicant's intention to record on its books, temporarily, the Western properties at its purchase price. In this connection, we call applicant's attention to Account 391, Electric Plant Purchased, of the Uniform System of Accounts for Electrical Corporations. The text of this account reads as

follows:

"A. This account shall include the cost of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, pending the distribution thereof to the appropriate accounts in accordance with electric plant instruction 4.

"B. Within six (6) months from the date of acquisition of property recorded herein, there shall be filed with the Commission proposed journal entries to clear from this account the cost to the utility of the property acquired."

For the year 1943, Western shows total operating revenues of \$196,996.45 segregated as follows:

| | |
|----------|---------------------|
| Electric | \$160,862.93 |
| Water | <u>36,133.52</u> |
| | <u>\$196,996.45</u> |

The operating expenses of Western for 1943, including depreciation and taxes, amounted to \$161,406.12, leaving a net operating revenue of \$35,590.33. The operating revenues include about \$13,000 realized from the operation of the Cokeville electric properties, which applicant intends to sell if it can obtain a satisfactory price for them. The testimony shows that through the purchase of Western properties and the refunding of outstanding bonds, applicant's net income will be increased by at least \$30,000 per year. Its proforma income statement for the year ended April 30, 1944, assuming that it owned Western properties, exclusive of the Cokeville electric properties and that its bonds had been refunded, shows operating results as

follows:

| | | |
|--|-------------------|----------------------|
| Operating Revenues | | \$1,168,466.55 |
| Electric | \$546,530.68 | |
| Gas | 331,765.85 | |
| Water | 177,800.68 | |
| Telephone | 42,764.71 | |
| Gas Wholesale | <u>69,604.63</u> | |
| Operating Revenue Deductions | | 914,017.70 |
| Operating Expenses | 651,148.78 | |
| Depreciation | 74,027.07 | |
| Taxes | <u>188,841.85</u> | |
| Net Operating Revenues | | \$ 254,448.85 |
| Other Income | | <u>9,345.99</u> |
| <u>Gross Income</u> | | \$ 263,794.84 |
| Deductions from Gross Income | | 78,422.85. |
| Bond Interest | 56,000.00 | |
| Interest on Depreciation Reserve | 19,983.25 | |
| Other Interest | 1,746.40 | |
| Interest Charged to Construction - Cr. | 984.90 | |
| Amortization Premium on Debt - Cr. | 920.00 | |
| Miscellaneous Deductions | <u>2,598.10</u> | |
| <u>Net Income</u> | | <u>\$ 185,371.99</u> |

The testimony shows that applicant will keep its records in such a manner that it can report the cost of its plants, its operating revenues and operating expenses, except general and administrative expenses, by the several areas in which it operates. The general and administrative expenses will be apportioned to such areas. The purchase of the Western properties will not increase any expenses assignable to California or Oregon properties. The general and administrative expenses that will be allocated to Western properties will be less than the current general and administrative expense of Western.

Western's \$297,000 of $4\frac{1}{2}\%$ bonds now outstanding are redeemable upon 30 days' notice on September 1, 1944 at 105% of their face value and accrued interest. Applicant's \$1,000,000 of 4% bonds now outstanding are redeemable on 30 days' notice on September 1, 1944 at $104\frac{3}{4}\%$ of their face value and accrued interest. Applicant intends to redeem both of said bond issues on September 1, 1944.

To pay said bonds, to pay the temporary loan of \$237,000, and to reimburse its treasury because of income invested in its properties, applicant asks permission to issue and sell at 103% of their face value and accrued interest, \$1,600,000 of $3\frac{1}{2}\%$ bonds, due July 1, 1969. The Commission is advised that the bonds will be sold to the following insurance companies:

| | |
|--|-------------|
| John Hancock Life Insurance Company | \$1,200,000 |
| Occidental Life Insurance Company | 300,000 |
| California Western States Life Insurance Company | 100,000 |

Both the investment in applicant's properties and the earnings of applicant warrant the issue of \$1,600,000 of bonds. The bonds equal about 52% of applicant's charges to its plant accounts less the reserve for accrued depreciation. Applicant's net earnings, after depreciation and before bond interest, are as shown in the proforma income statement at about 4.3 times applicant's interest charges on said \$1,600,000 of bonds.

Applicant will charge to its Earned Surplus Account, if it issues said \$1,600,000 of bonds, the unamortized discount and expense applicable to its outstanding bonds, the bond redemption premium it must pay, and the duplicate interest costs

incurred by reason of the refunding of said bonds. It will credit Account 240, Unamortized Premium on Debt, with the premium on the sale of said \$1,600,000 of bonds less the expenses of the issue estimated at \$25,000. The \$25,000 include a Finder's Fee of \$8,000.

Applicant asks permission to execute a trust indenture to secure the payment of said \$1,600,000 of bonds and such additional bonds as it may from time to time be authorized to issue. A copy of the trust indenture is on file in this application. It is, however, not in its final form. When applicant submits a revised copy of the trust indenture, or indicates to us the changes it intends to make in the copy now on file with the Commission, we will enter an appropriate supplemental order in this application authorizing applicant to execute a trust indenture to secure the payment of its bonds.

O R D E R

A public hearing having been held in this application before Examiner Fankhauser and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of \$1,600,000 of bonds by California-Pacific Utilities Company is reasonably required by said company for the purposes herein stated; that the expenditures for said purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions of this

Order, therefore,

IT IS HEREBY ORDERED as follows:

1. California-Pacific Utilities Company may assume, after the date hereof, the payment of \$297,000 of First Mortgage $4\frac{1}{2}\%$ bonds, due September 1, 1959, issued by Western States Utilities Company and referred to in the purchase agreement filed in this application as Exhibit "A." California-Pacific Utilities Company may execute said agreement.

2. California-Pacific Utilities Company may, after it has paid the fee prescribed by Section 57 of the Public Utilities Act, and after the Railroad Commission has authorized it to execute a trust indenture to secure the payment of the bonds herein authorized to be issued, issue and sell for not less than 103% of their face value and accrued interest, \$1,600,000 of First Mortgage $3\frac{1}{2}\%$ bonds, due July 1, 1969. California-Pacific Utilities Company shall use the proceeds realized through the issue of said bonds to pay its \$1,000,000 of outstanding bonds; to pay \$297,000 of bonds issued by Western States Utilities Company; to pay short-term notes in the amount of \$237,000, issued to obtain funds to pay, in part, for the properties of Western States Utilities Company, and to reimburse its treasury because of income expended for additions and betterments to its properties.

3. California-Pacific Utilities Company shall file with the Railroad Commission, within sixty (60) days after the issue of said \$1,600,000 of bonds, a true and correct copy of each agreement covering the sale of said \$1,600,000 of bonds; a report required by the Commission's General Order No. 24-A,

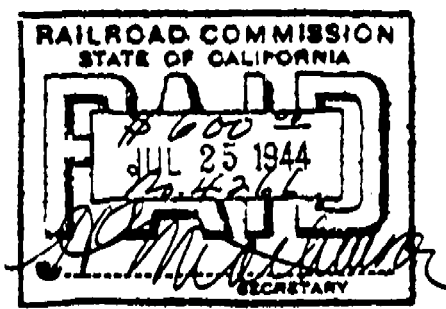
which Order insofar as applicable is made a part of this Order, and a statement showing in detail the expenses incurred in connection with the issue of said \$1,600,000 of bonds.

4. California-Pacific Utilities Company shall file with the Railroad Commission within sixty (60) days after it acquires title to the properties of Western States Utilities Company, a true and complete copy of the deed and of any other instrument executed to convey the title to said properties to California-Pacific Utilities Company.

5. The action taken herein shall not be construed to be a finding of value for any purpose other than the proceeding herein involved.

Dated at San Francisco, California, this 24th day of July, 1944.

Richard L. Ketchum
Justin F. Calmes
Frank W. Elora
Leah H. Pauze
Commissioners.



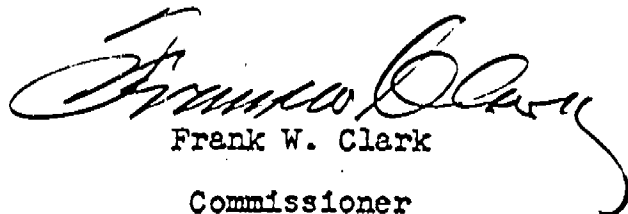
CONCURRING OPINION

I quote from the opinion herein as follows:

"Both the investment in applicant's properties and the earnings of applicant warrant the issue of \$1,600,000 of bonds. The bonds equal about 52% of applicant's charges to its plant accounts less the reserve for accrued depreciation. Applicant's net earnings, after depreciation and before bond interest, are as shown in the proforma income statement at about 4.3 times applicant's interest charges on said \$1,600,000 of bonds."

To the extent that importance may be attached to the statement made in the concluding sentence of the above quotation, I consider it proper and necessary that the Commission should further emphasize that future net earnings of this corporation, like those of any other utility coming under the jurisdiction of the California Railroad Commission, are subject to fluctuation by reason of change in rates as may be ordered by the Commission from time to time.

Also it is a fact which should be pointed out that all statements set forth in the entire paragraph as quoted and reproduced above are based only upon figures submitted by the utility to, but not verified by, this Commission.


Frank W. Clark
Commissioner