Decision No. 38325

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, 2-3/4%, Series due 1975, of the value of not more than $1,250,000, (2) to sell such bonds up to a value of $1,250,000, and to use the proceeds for the purposes and in the manner specified in this application, and (3) to execute a Supplemental Indenture supplementing that certain Trust Indenture, dated July 1, 1941, covering certain properties to secure said bonds.

ORIGINAL

Application No. 26989

Felix T. Smith, A. B. Tanner and Henry G. Hayes, for applicant.

BY THE COMMISSION:

OPINION

In this application, Coast Counties Gas and Electric Company asks permission to issue at their face amount plus accrued interest, if any, $1,250,000 of first mortgage bonds, 2-3/4%, Series due 1975, for the purposes hereinafter stated, and execute a supplemental indenture to be dated as of November 1, 1945, modifying its trust indenture dated July 1, 1941.

Applicant is a public utility engaged in distributing natural gas, butane gas, electricity and water. As of July 31, 1945, it reports its assets and liabilities as follows:

ASSETS

Fixed assets		$15,007,464.30
Utility property plant and equipment	$14,662,671.51 (1)	
Intangibles and franchises	82,465.38	
Organization expense	154,075.81	
Construction work in progress	108,251.60	
Investment and fund accounts		397,735.90
Sinking fund	335,636.45	
Other physical property	22,009.21	
Other investments	40,090.24	
Current and accrued assets		2,332,260.82
Cash	619,195.61	
Special deposits	17,397.11	
Working fund	6,905.00	
Temporary cash investments	1,015,000.00	
Accounts receivable - trade	430,674.17	
Accounts receivable - other	7,105.06	
Interest and dividends receivable	13,577.40	
Material and supplies	192,609.44	
Prepaid taxes	16,850.19	
Prepaid insurance	10,710.63	
Prepaid expense	2,236.21	
Deferred debits		368,298.24
Unamortized debt discount and expense	321,735.44	
Extraordinary property losses	22,455.85	
Retirement work in progress	3,012.91	
Other work in progress	2,951.72	
Other deferred debits	18,142.32	
Total Assets		$18,105,759.26

(1) Includes the following amounts:

Electric plant	$6,643,627.37
Gas plant	6,424,276.79
Water plant	163,146.95
Common utility plant	543,602.69
Acquisition adjustment	888,017.71

LIABILITIES

Common capital stock		$ 3,620,000.00
First preferred capital stock, 5% cumulative		3,750,000.00
First mortgage bonds, $3\frac{1}{4}$% due 1971		3,360,000.00
Current and accrued liabilities		1,149,892.73
Accounts payable	$ 69,238.54	
Payable to associated companies	201,661.50	
Customers' deposits	32,616.00	
Taxes accrued	792,978.13	
Interest accrued	9,100.00	
Other current and accrued liabilities	44,298.56	
Deferred credits		181,677.02
Customers' advances for construction	67,677.98	
Other deferred credits	652.68	
Clearing accounts	1,459.19	
Unamortized premium on debt	111,887.17	
Reserves		5,523,130.33
Depreciation	5,366,066.68	
Uncollectible accounts	27,788.37	
Injuries and damages	50,921.30	
Employees' provident reserve	54,916.48	
Dividends	23,437.50	
Contributions in aid of construction		46,715.06
Earned Surplus		474,344.12
Total Liabilities		$18,105,759.26

For the twelve months ending July 31, 1945, applicant reports earnings and expenses as follows:

Operating revenues	$6,463,122.66
Operating expense	4,316,997.60
Maintenance expense	111,235.05
Depreciation	398,433.74
Federal income and excess profits taxes	484,300.00
Other taxes	309,889.97
Total operating revenue deductions	5,620,856.36
Net operating revenues	842,266.30
Other income:	
Tank gas	1,309.73
Interest revenues	13,835.29
Non-operating revenue deductions (debit)	180.31
Total other income	14,964.71
Gross income	857,231.01
Income deductions:	
Interest on long term debt	110,242.71
Amortization debt discount and expense	16,020.00
Amortization of premium on debt (credit)	4,358.37
Other interest	1,769.15
Miscellaneous income deductions	129,267.51
Total income deductions	252,941.00
Net income to surplus	604,290.01
Dividends - preferred stock	187,500.00
Balance available for common dividends	$ 416,790.01

The testimony shows that applicant's officers have considered several plans to take advantage of the lower cost of money and to use certain surplus funds that it has in its treasury. They considered the refunding of its outstanding 5% preferred stock through the issue of a 4% preferred stock, the refunding of the outstanding bonds through the issue of bonds bearing interest at less than 3½% per annum, and the issue of additional bonds to redeem approximately one-half of applicant's outstanding 5% preferred stock. They concluded that the maximum savings to applicant could be effected through the redemption of about one-half of its outstanding 5% preferred stock and partially finance such redemption through the issue of $1,250,000 of 2-3/4% bonds.

Applicant's Articles of Incorporation provide that it may, at its option, redeem all or any part of its 5% first preferred stock at any time, upon not less than thirty days' notice to the stockholders. The shares of preferred stock, having a par value of $25, are now redeemable at $26.50 per share and accrued dividends. The notice of redemption must be given by mail to the holders of the stock and must also be published in a newspaper of general circulation published in the City and County of San Francisco once a week for at least thirty days prior to the date fixed for redemption. Applicant intends to redeem approximately one-half of its outstanding preferred stock on December 15, 1945. The stock will be redeemed ratably, but it is not contemplated that any fractional shares will be issued. Stockholders will be allowed to retain the odd share of stock.

Applicant estimates that it will have to spend about $2,004,500 to redeem approximately one-half of its 5% preferred stock, segregated as follows:

Par value of stock	$1,875,000
Redemption premium	112,500
Pay expenses, about	17,000
Total	$2,004,500

To effect this redemption, applicant proposes to use about $755,000 of its surplus funds and issue and sell $1,250,000 of first mortgage bonds, 2-3/4%, Series due 1975.

Applicant has outstanding $3,360,000 of first mortgage bonds, 3½%, due 1971. The bonds are owned by Mutual Life Insurance Company of New York and by John Hancock Mutual Life

Insurance Company. The evidence shows that applicant might have been able to sell bonds on a 2.9% basis to raise sufficient funds to redeem the outstanding bonds and about one-half of its outstanding preferred stock. That procedure would have resulted in applicant's outstanding bonds being $4,800,000 as compared with $4,610,000 if it now issues $1,250,000. Moreover, the present owners of the bonds, who have agreed to purchase the $1,250,000 of 2-3/4% bonds at par and accrued interest, if any, have also agreed to an amendment to applicant's trust indenture securing the payment of the outstanding bonds, which amendment reduces the annual payment into a renewal fund from an amount equal to 12½% of applicant's operating revenues to an amount equal to applicant's depreciation accruals. This change reduces the annual payment to the trustee by approximately $200,000. The proposed refinancing will result in a reduction in the overall capitalization of applicant's properties by $625,000, or from $10,730,000 to $10,105,000. The annual interest charges will be increased by $34,375, or from $110,242.71 to $144,617.71, while the annual dividends on the preferred stock will be reduced from $187,500 to about $93,750, the reduction approximating $93,750. The net annual savings amount to about $58,375.

Ordinarily, we do not look with favor upon the issue of bonds to redeem preferred stock. However, applicant's capitalization is such that the issue of additional bonds will not result in an excessive amount of bonds outstanding. This is shown by the following segregation of applicant's present and proposed capitalization:

	Present	Proposed
Bonds	31.2%	46%
Preferred stock	34.1%	18%
Common stock	34.7%	36%

The expenses incident to the issue of the bonds and redemption of the stock are estimated at $17,000. Such expenses, as well as the premium which applicant must pay upon the redemption of its preferred stock, will be charged to account 414--Miscellaneous Debits to Surplus.

ORDER

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 $1,250,000 of first mortgage bonds, 2-3/4% series due 1975, by Coast Counties Gas and Electric Company is reasonably required by said Coast Counties Gas and Electric Company for the purpose herein stated, that the expenditures for said purpose are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. Coast Counties Gas and Electric Company may, after the effective date hereof and prior to December 31, 1945, execute a supplemental indenture in, or substantially in, the same form as the supplemental indenture filed in this proceeding

as Exhibit "1".

2. Coast Counties Gas and Electric Company may, after the effective date hereof and on or before December 31, 1945, issue and sell at not less than their face amount plus interest, if any, $1,250,000 of first mortgage bonds, 2-3/4% series due 1975.

3. Coast Counties Gas and Electric Company shall use the proceeds realized through the issue and sale of said $1,250,000 of first mortgage bonds, 2-3/4% series due in 1975, to redeem in part its outstanding first preferred 5% cumulative stock. The accrued interest, if any, may be used for general corporate purposes.

4. 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 One Thousand One Hundred and Twenty-five ($1,125.00) Dollars.

5. Within ninety (90) days after the issue and sale of said $1,250,000 of bonds, Coast Counties Gas and Electric Company shall file with the Railroad Commission a report showing the price at which it sold said bonds, to whom said bonds were sold, and the purpose for which it expended the proceeds, and two certified copies of the supplemental indenture executed under the authority herein granted.

Dated at San Francisco, California, this 26th day of October, 1945.

Justus F. Craemer

Ira H. Rowell

Commissioners

RAILROAD COMMISSION
STATE OF CALIFORNIA
PAID
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By ________ SECRETARY