

LEM

Decision No. 15888.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
INLAND EMPIRE GAS COMPANY,
a corporation, for a certificate of
public convenience and necessity to
furnish gas to El Centro, Imperial,
Brawley, Heber and Calexico, and
intervening territory in Imperial
County, and for an order authorizing
the issue and sale of its capital
stock to finance such contemplated
improvement.

ORIGINAL

Application No. 12116

J. D. Maggart, for applicant,
J. S. Larue, for City of El Centro,
W. I. Wilson, for City of Brawley,
and
L. P. Power, for City of Calexico.

BY THE COMMISSION:

O P I N I O N

The Inland Empire Gas Company asks the Railroad Commission to make an order authorizing it to construct, maintain and operate an artificial gas plant or plants at El Centro and other points in the Imperial Valley, Imperial County, California, and authorizing the company to issue stock to acquire properties and to pay the cost of constructing the gas plant or plants.

The Inland Empire Gas Company was organized under the laws of the State of California for the immediate purpose of engaging in the business of supplying gas for the domestic and commercial consumption in that portion of the State of California commonly known as the Imperial Valley and particularly the towns of El Centro, Imperial, Brawley, Heber, and Calexico, and intervening and adjacent territory, all located in Imperial County, California. The company has an authorized stock issue of \$750,000. divided into 15,000 shares of \$50. each. The 15,000 shares are

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divided into 7500 shares of seven percent. cumulative preferred and 7500 shares of common stock. The preferred stock, under the terms of applicant's articles of incorporation, is redeemable at the option of the company at \$52.50 per share, plus dividends accrued or unpaid at the date fixed for redemption.

None of the cities, towns or communities in which applicant intends to sell gas for domestic and commercial purposes have at present any gas service. The population of the cities and the number of consumers applicant believes it can obtain forthwith are submitted as follows:-

<u>Northern Unit</u>	<u>Population</u>	<u>Consumers</u>
El Centro	7000	800
Imperial	2500	250
Brawley	7000	500
Subtotal.....	16500	1650
<u>Southern Unit</u>		
Heber	250	30
Calexico	7000	700
Mexicali	11000	500
Subtotal.....	18250	1230
Grand total.....	34750	2880

Applicant does not plan to distribute gas in Mexicali but sell gas at wholesale to some individual or corporation for distribution in Mexicali.

No one appeared in opposition to the granting of this application. Representatives of some of the cities expressed the opinion that the cities could be served to better advantage if a plant were located at Calexico, another at El Centro or Brawley, rather than a central plant at El Centro. Applicant has asked the Commission to determine whether it should build one generating plant to serve the entire territory or build a plant at El Centro or Brawley to serve the Northern Unit, and a plant at Calexico to serve the Southern Unit. In its Exhibit "B" applicant submits several cost estimates. The cost of a central plant to serve the entire territory, together with the cost of a transmission and distribution system is submitted by applicant at \$525,575.00. The

cost of a plant to serve only El Centro is submitted at \$172,500., while the cost of a plant to serve El Centro, Imperial and Brawley is estimated at \$338,588.00 and the cost of a plant to serve Calexico and Mexicali, at \$165,707.00.

We have considered the testimony in relation to a central plant at El Centro, or a plant at El Centro or Brawley and another plant at Calexico, and have reached the conclusion that applicant should construct a plant at El Centro sufficiently large to serve all the cities and communities herein mentioned. While the construction cost of such a plant, including necessary transmission and distribution system may be somewhat in excess of the cost of a plant at El Centro or Brawley to serve the Northern Unit, and the cost of a plant at Calexico to serve the Southern Unit, we find that the annual operating costs of a central plant located at Calexico should be materially less than the cost of maintaining and operating two separate plants. From the standpoint of the consumers, we believe that it is to their interest that a plant be located at El Centro and that such plant be constructed sufficiently large to serve El Centro, Imperial, Brawley, Heber, Calexico and Mexicali. In view of our conclusion in this regard it is not necessary to consider the cost estimates of the separate plants.

The Engineering Department of the Commission in the Commission's Exhibit No. 1 estimates the cost of a central plant including necessary transmission and distribution systems to serve the cities and towns herein mentioned, at \$454,860.00. The difference between the estimates submitted by the company (\$525,573.) and that submitted by the Commission's engineers (\$454,860.) is \$70,713.00. The company's Exhibit "B" and the Commission's Exhibit No. 1 contain detailed figures supporting the respective estimates. Comment need to be made only on one of the items in which there appears to be a substantial difference between the two estimates. Applicant in its Exhibit "B" estimates the cost of

deeds, rights of way and easements for the distribution and transmission system at \$52,175.00. The deeds, rights of way and easements which applicant intends to acquire are described as follows:-

1. Right of way across Holton Power Company, in County of Imperial, as per deed of right of way, recorded 19th day of April, 1909, in Book 27, Page 144 of Deeds, Imperial County records.
2. Rights of way granted by Holton Interurban Railway Company along and over any and all property of the Holton Interurban Railway Company, as per deed of right of way recorded 19th day of April, 1909, in Book 27, Page 144 of Deeds, Imperial County records. Also rights of way recorded on 19th day of April, 1909, in Book 27, Page 143 of Deeds, Imperial County records.
3. All franchises and rights of way as deeded by Imperial Land Company to Imperial Valley Gas Company granting all the franchises and privileges of said Imperial Land Company over and across streets and alleys of towns of Imperial, Brawley, Calexico and Eber for constructing, laying, operating and maintaining of gas plants and systems, consisting of pipe lines, conduits and any and all means of distributing as for fuel, lighting, power or other purposes as is more particularly set forth and recorded in Book 66, Page 38 of Deeds of Imperial County Records.
4. A franchise deeded by the Holton Power Company to the Imperial Valley Gas Company, granting all the franchises and privileges of said Holton Power Company, over and across the streets and alleys of the town of Holtville for the construction, laying and maintaining pipes and pipe lines for the conducting of gas for lighting, heating and power and other purposes as recorded in Book 27, Page 145 of Deeds, Imperial County Records.
5. A franchise deeded by the El Centro Land Company to the Imperial Valley Gas Company, granting all the franchises and privileges of said El Centro Land Company, over and across the streets and alleys of the town of El Centro for the construction, laying, operating and maintaining pipes and pipe lines for conducting gas for lighting, heating and power and other purposes as recorded in Book 66, Page 17 of Deeds, Imperial County Records.
6. A permit from Imperial County to Imperial Valley Gas Company, under date of February 3, 1913, permitting Imperial Valley Gas Company to lay, construct and maintain a system of pipes and pipe lines under and across the public roads and highways of said County of Imperial as is more particularly set forth in the minutes of the Board of Supervisors of Imperial County of the 3rd day of February, 1913.

It is our opinion that the franchises, easements and rights of way proposed to be acquired by the applicant are clearly not of the value of said \$52,175.00. From the evidence in the case we believe that \$10,000.00 is a fair valuation to be placed on said rights and that they should be obtainable by the applicant for a sum not in excess of that amount. In the event that the proposed rights could not be acquired for such amount, we believe that said rights of way could be duplicated and comparable franchise rights obtained direct from the respective municipalities at a cost within said figure. To pay for such rights, the order herein will authorize the issuance of \$12,500.00 of common or preferred stock, such common stock to be issued and sold to net the applicant not less than 80 percent. of its par value, or preferred stock at not less than 85 percent. of its par value. Applicant will be given the right to pay for the rights, franchises and easements to which reference has been made herein in cash in the sum of \$10,000.00 or to deliver to the present owner of such rights common or preferred stock on the basis indicated.

For the purpose of this proceeding we will assume the cost of an artificial gas generating plant and appurtenances located at El Centro with transmission lines to Calexico and Brawley, distribution systems at El Centro Imperial, Brawley, Heber and Calexico, at \$483,398.00 including all preliminary expenses referred to in this application. The \$483,398.00 includes the \$4,000.00 reported in applicant's Exhibit "C" as having been expended for preliminary investigations and engineering reports and the \$932.51 reported in Exhibit "D" as having been expended for legal services, fees and taxes paid to the Secretary of State and other organization expenses.

Applicant estimates its operating expenses as follows:-

Production and compression expense	\$72,730.00
Oil for gas making	\$51,610.
Labor and msintenance and miscellaneous	15,360.
Compression expense, fuel, etc.	<u>5,760.</u>
Distribution and commercial expenses	15,030.00
State taxes	10,442.00
Depreciation	12,750.00
Miscellaneous	<u>1,800.00</u>
Total expenses	<u>\$112,752.00</u>

Applicant estimates its annual operating revenue at \$161,730.00. In arriving at this figure it calculates a retail rate of \$1.95 per thousand cubic feet for gas sold in Calexico and a wholesale rate of \$1.50 for gas sold for distribution in Mexicali. The quantity of gas

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sold in Calexico is estimated at 71,400 M.C.F. and the quantity sold at wholesale for distribution in Mexicali at 15,000 M.C.F. If applicant realizes the amount estimated and can operate its plant on the above basis it will have a return of \$48,978.00 which represents the amount available for the payment of interest, if any, on indebtedness, dividends on stock and for surplus.

Applicant proposes to finance the construction of its plants and properties entirely through the issue of preferred and common stock. It asks the Railroad Commission to determine the amount of stock and the class of stock which it should issue for such purposes. It asks that it be permitted to expend an amount equal to 20 percent. of the par value of the stock sold to pay the cost and expenses incident to the sale of the stock.

In our opinion applicant should be authorized to issue and sell \$375,000. of its seven percent. cumulative preferred stock and \$205,800. of its common stock. To pay expenses incident to sell the preferred stock, applicant may expend an amount not exceeding 15 percent. of the par value of the stock sold; and to sell the common stock, an amount not exceeding 20 percent. of the par value of the stock sold. It is understood that the allowances herein permitted are to cover all commissions, brokerage fees, advertising and all other expenses incident to the sale of the stock. Applicant will not be permitted to accept any notes in payment for stock. If it sells any stock on the installment payment basis, the balance due should be noted on the purchaser's stock subscription and not covered by notes.

O R D E R

Inland Empire Gas Company, having applied to the Railroad Commission for permission to construct, maintain and operate an artificial gas plant, as indicated in the foregoing opinion, and for permission to issue stock, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being

of the opinion that public convenience and necessity require and will require the construction, operation and maintenance of the gas plant referred to herein and that the money, property or labor to be procured or paid for by the issue of the stock herein authorized, is reasonably required by applicant, and that the expenditures are not in whole or, in part reasonably chargeable to operating expenses or to income, and that the application should be granted, as herein provided, therefore-

THE RAILROAD COMMISSION HEREBY FINDS AND DECLARES that public convenience and necessity require, and will require, Inland Empire Gas Company to construct, operate and maintain an artificial gas generating plant located at El Centro, and to construct, operate and maintain transmission and distribution lines to sell gas for domestic and commercial purposes to residents in El Centro, Imperial, Brawley, Heber, Calexico, Mexicali and intervening and adjacent territory.

IT IS HEREBY ORDERED that the Inland Empire Gas Company be, and it is hereby, authorized to issue not exceeding \$375,000. of seven percent. cumulative preferred stock and not exceeding \$205,800. of common stock.

IT IS HEREBY FURTHER ORDERED that if Inland Empire Gas Company sells any of the stock herein authorized to be issued, such stock shall be sold for cash at not less than par, and that applicant may, if necessary, expend an amount not exceeding 7.5 percent. of the par value of the preferred stock sold and an amount not exceeding 20 percent. of the common stock sold to pay commissions, brokerage fees, advertising costs and other expenses incident to the sale of such stock. The remaining proceeds shall be used by applicant to acquire and construct the artificial gas generating plant, transmission and distribution system and properties referred to in the foregoing opinion, and in applicant's Exhibit "B", and to pay the indebtedness referred to in applicant's Exhibit "C" and applicant's Exhibit "D", provided that not more than \$10,000. of said proceeds

may be expended to acquire the rights of way, franchises and easements necessary to construct, operate and maintain such gas plant; said \$10,000. to be paid in cash or in stock, as indicated in the foregoing opinion.

IT IS HEREBY FURTHER ORDERED that Inland Empire Gas Company shall keep such record of the issue, sale and delivery of the stock 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 in so far as applicable, is made a part of this order.

IT IS HEREBY FURTHER ORDERED that the authority herein granted to issue stock and construct, operate and maintain an artificial gas generating plant shall become effective upon the date hereof; that under the authority granted no stock may be issued, sold or delivered after December 31, 1926; and that if applicant does not begin the construction of said gas plant before December 31, 1926, all rights herein granted to construct said plant terminate on said date.

DATED at San Francisco, California, this 21st day of January, 1926.

H. B. Brundage
Chauncy
George D. Squires
E. W. Deeds

Commissioners.