

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOUTHERN COUNTIES GAS COMPANY OF CALI-
FORNIA for authority to discontinue
the maintenance of a special reserve
fund created through the amortization
of nonoperative gas plants and for the
approval of a certain contract with
the Los Angeles Gas and Electric Cor-
poration and for authority to sell cer-
tain bonds now held by the company.

ORIGINAL

Application No. 12080.

Lo Roy M. Edwards, for applicant.
Paul Overton, for Los Angeles Gas and
Electric Corporation.

Seavey and Decoto, Commissioners:

O P I N I O N

The Railroad Commission is asked to make an order--

1. Approving a proposed contract between the Southern Counties Gas Company of California and Los Angeles Gas and Electric Corporation dated October 27, 1925, and filed in this proceeding as applicants' Exhibit "A".
2. Authorizing the Southern Counties Gas Company of California to discontinue the maintenance of the reserve fund representing the amortization of its nonoperative artificial gas plants.
3. Authorizing the Southern Counties Gas Company of California to transfer to its general cash fund and use for general corporate purposes the money now in its gas plant amortization fund and reserve for central gas plant fund.
4. Authorizing Southern Counties Gas Company of California to sell its own first mortgage bonds and any other bonds now held in the above mentioned fund at the current market price thereof and

so as to yield not less than the book cost to the company.

At the hearing had on December 9, 1925, Los Angeles Gas and Electric Corporation joined in the application insofar as it involves the execution of the contract filed as Exhibit "A".

In the proposed contract (Exhibit A) which the Commission is asked to approve, the Southern Counties Gas Company of California agrees that it will during the term of the contract sell and deliver to the Los Angeles Gas and Electric Corporation any and all surplus natural gas, that it may have, and that the Los Angeles Gas and Electric Corporation may desire. By surplus natural gas is meant all natural gas owned, possessed or controlled by the Southern Counties Gas Company of California over and above the amount of natural gas necessary to meet the gas requirements of itself and its consumers. The gas is to be sold and delivered to Los Angeles Gas and Electric Corporation at such point and under such deliveries and at such prices as the parties to the contract may agree from time to time and subject to the approval of the Railroad Commission of the State of California.

The Los Angeles Gas and Electric Corporation in turn agrees that it will during the term of the contract manufacture, sell and deliver to the Southern Counties Gas Company of California such amounts of artificial gas as that company may require in order to meet all the gas requirements of its consumers, said gas to be delivered at such points and under such deliveries and at such prices as the parties to the contract may agree upon from time to time, subject to the approval of the Railroad Commission of the State of California. The Los Angeles Gas and Electric Corporation further agrees that it will from time to time install, operate and maintain in or near the City of Los Angeles gas making machinery apparatus and equipment sufficient to generate and deliver to the Southern Counties Gas Company of California all of the artificial gas required from time to time by that company in order to take

care of the gas requirements of its consumers, it being understood, however, that the Southern Counties Gas Company of California shall at all times use its available supply of natural gas so far as possible, toward meeting its own requirements before calling upon the Los Angeles Gas and Electric Corporation for any supplies of artificial gas. The Southern Counties Gas Company of California agrees to give the Los Angeles Gas and Electric Corporation such reasonable advance notice as it can in regard to its future artificial gas requirements.

The contract is to remain in effect for a period of 20 years, commencing January 1, 1926 and ending January 1, 1946. The effect of this agreement will be that artificial gas, when and if required on the system of Southern Counties Company will be manufactured in a large generating plant of the Los Angeles Gas and Electric Corporation instead of in one or more smaller and less economical plants to be built by the Southern Counties Gas Company. In other parts of the state economies of investment and operation have justified the construction of pipe lines in order that central plants might supersede less efficient local plants. In the case before us, necessary pipe lines are already in service transporting natural gas to Los Angeles and when the need arises they will be available for the transportation of manufactured gas in the opposite direction. The terms of the contract are general and prices and conditions are to be fixed as the need for the service develops.

Southern Counties Gas Company of California represents that in view of the contract if approved by the Commission, it will not be necessary for it to construct any artificial gas plants and that therefore it should be relieved from maintaining the gas plant amortization fund and reserve for central gas plant fund established in compliance with the Commission's Decision No. 5539 dated July 3, 1918 and subsequent instructions from the Commission.

In Decision No. 5539 dated July 3, 1918 (Vol. 15, Opinions and Orders of the RR. Comm. of Calif., Page 928) the Commission finds that the business of the Southern Counties Gas Company of California had increased to such an extent that the company's then existing artificial gas plants were of little or no value for standby purposes. Quoting from the Commission's decision--

"Of late applicant's gas sales have increased manifold, due chiefly to the extensive use of natural gas for industrial purposes at a price with which artificial gas could not compete. This has resulted in business so far

in excess of the capacity of the existing artificial gas plants in applicant's system that these plants are at present of little or no value for standby purposes. After giving this matter due weight I am of the opinion that it would be to the best interests of the rate payer, as well as to applicant, to dispose of these plants. The high prices now obtained for the material of which these plants are composed, makes this step most desirable. With these facts in mind the rates established hereinafter include a substantial amount to amortize over a period of ten years the remaining value of these inadequate plants, the reproduction values of these plants to be deducted from the rate base and the net amount to be amortized in the rates to be fixed as shown below--

District	TABLE NO. 3 Reproduction value	Net amount to be amortized
Eastern	\$208,510.00	\$128,155.00
Southern	78,674.00	47,841.00
Western	85,457.00	55,503.00
Total system.....	\$372,641.00	\$231,499.00

Under date of Sept. 7, 1918 the Commission directed the company to set aside monthly and invest in securities which are legal investments for savings banks under the Bank Act of the State of California, the \$51,454.00 allowed annually to amortize its artificial gas plants and that any interest received by the company on such investment should be added to the amortization fund and reinvested in a like class of securities.

The company has filed statements in this proceeding which show that it has in its gas plant amortization fund and its reserve for central gas plant fund \$460,784.67, segregated as follows--

A. Gas plant amortization fund	\$116,540.45
Sales from gas plant material	\$72,793.14
Interest on bonds and bank balances	27,633.19
Premium on bonds returned and used for sinking fund purposes	16,114.12
B. Reserve for central gas plant fund	344,244.22
Cash set up out of earnings	263,683.42
Interest on bonds and bank balances	59,698.76
Premium on bonds returned and used for sinking fund purposes	20,862.04
Total.....	<u>\$460,784.67</u>

As of August 31, 1926 the company reports assets and liabilities as follows:-

Capital assetsIntangible values

Organization, rights and franchises	\$ 36,251.82
Additions since Feb. 1, 1916	210,931.77
Total intangible capital	<u>247,183.59</u>

Tangible properties

Basic inventory Feb. 1, 1916	2,339,647.63
Additions since " "	14,294,206.40
Total tangible capital	<u>16,633,854.03</u>
Total fixed capital	<u>16,981,047.62</u>

Special reserves

Reserve for central gas plant and miscellaneous	460,784.67
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Current assets

Pipe, fittings, construction materials and merchandise	387,678.18
Accounts and notes receivable	455,389.01
Cash-operating	924,720.00
Funded debt tax funds and miscellaneous	4,468.97
Sinking fund F.M. bonds	89,434.27
Stocks and securities owned	5,000.00
Total current assets	<u>1,866,690.43</u>

Deferred charges

Unamortized discount and expense	
F.M. Bonds	621,766.32
C.T. bonds	26,239.76
G & R mortgage bonds	100,597.66
Insurance taxes and miscellaneous	160,557.36
Total deferred charges	<u>909,161.10</u>
Discount on stock issued	758,505.76

Total assets \$20,976,179.50

Capital stock outstanding

Common 15,000 shares	\$ 1,500,000.00
Preferred 24,658 "	2,465,800.00
Installments on preferred stock	5,796.00

Funded debt

F.M. 20-year 5½% S.F. bonds dated May 1, 1916	8,442,800.00
C.T. 10-yr 8% bonds dated Dec. 1, 1920	215,600.00
General and refunding mortgage 20-yr 6% bonds dated November 1, 1925	2,500,000.00
Total funded debt	<u>15,129,996.00</u>

Current liabilities

Accounts payable	
Miscellaneous	598,082.41
Interest accrued	209,097.50
Consumers deposits	1,177,595.45
Total current liabilities	<u>1,984,775.36</u>

Reserves

Accrued depreciation	1,655,198.83
Contingencies, taxes, etc.	334,357.33
Contingent debt	37,552.99
Total reserves	<u>2,027,109.15</u>

Appreciation of property values

Earned surplus	99,568.57
Total liabilities	<u><u>1,734,730.70</u></u>
Total liabilities	<u><u>\$20,976,179.50</u></u>

The financial condition of Southern Counties Gas Company of California since 1917 has been improved to such an extent that we believe the company may be permitted to discontinue the reserve fund to which reference is made herein. On December 31, 1917 the company had no reserve for accrued depreciation and only a corporate surplus (earned) of \$110,537.60, as compared with a reserve for accrued depreciation of \$1,655,198.83 and a surplus of \$1,734,730.70 on August 31, 1926. We believe that the financial condition of the company warrants us to permit the company to transfer the \$450,784.67 to its general cash account and use the same for general corporate purposes. The \$204,750.13 now carried under the account of "Reserve for amortization of gas plants" and included under contingencies, taxes, etc. on August 31, 1926, should be transferred to the reserve for accrued depreciation.

We herewith submit the following form of order:-

ORDER

The Commission having considered the requests of applicants, as set forth in the foregoing opinion, and being of the opinion that such requests should be granted,

IT IS HEREBY ORDERED as follows:-

of California

1. Southern Counties Gas Company/ and Los Angeles Gas and Electric Corporation be, and they are hereby, authorized to execute a contract substantially in the same form as the contract filed in this proceeding and marked "Applicants' Exhibit A", provided that said contract be executed within ninety days after the date hereof and be in full force and effect for a period of twenty years after the date of its execution.

2. Southern Counties Gas Company of California be, and it is hereby, authorized to discontinue the maintenance of its gas plant amortization fund and its reserve for central gas plant fund and is

hereby further authorized to transfer the amount of money now in said funds to its general cash fund and use the same for general corporate purposes.

3. Southern Counties Gas Company of California be, and it is hereby, authorized to sell its own first mortgage bonds and any other bonds now held in said funds at the current market prices so as to yield not less than the book cost thereof to applicant.

4. Southern Counties Gas Company of California shall file with the Commission within four months after the date hereof a certified copy of the contract which it and Los Angeles Gas and Electric Corporation are herein authorized to execute.

5. The authority herein granted to Southern Counties Gas Company of California to transfer the moneys in said reserve funds to its general cash fund and use said moneys for general corporate purposes will become effective when it has filed with the Commission the copy of the contract referred to herein.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

DATED at San Francisco, California, this 10th day of November, 1926.

H. B. ...
C. ...
...
Leon ...

Commissioners.