

LEMC

Decision No. 18594 - .

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOUTH COAST GAS COMPANY,
a corporation, for a permit to exer-
cise franchise rights, for a certifi-
cate of public convenience and neces-
sity, and for a permit to sell its
stock.

ORIGINAL

Application No. 13871

George L. Hampton, for applicant.

BY THE COMMISSION:

O P I N I O N

In this proceeding filed on June 17th, South Coast Gas Company asks the Railroad Commission to make an order:-

- a. Declaring that public convenience and necessity require and will require applicant to exercise the rights and privileges granted by Ordinance No. 312 of the City of Oceanside, and to construct, maintain and operate an artificial gas plant at Oceanside; and
- b. Authorizing the company to issue \$50,000. par value of common, and \$80,000. par value of seven percent cumulative preferred stock; and
- c. Authorizing the company to sell such stock at par for cash and use twenty percent of the proceeds to pay the cost of selling the stock and the balance to acquire and construct the gas plant referred to in this application; and
- d. Permitting the company to charge the rates referred to herein.

By Decision No. 18391 dated May 25, 1927 the Commission denied without prejudice Application No. 13724 in which South Coast Gas Company asked permission to exercise the rights and privileges granted by Ordinance No. 312 of the City of Oceanside and to construct, maintain and operate the artificial gas plant at Oceanside, and to issue \$185,000. of stock to finance the cost of such plant.

The Commission denied Application No. 13724 for the reason, among others, that the company had entered into a contract for the construction of its proposed plant at a cost of \$127,500., whereas the plant, in the opinion of the Commission, should not cost more than \$71,515.

In its decision the Commission says--

"While our action in this matter may result in a delay in the construction of a gas plant at Oceanside, it does not mean that the Commission will not authorize the construction of such a plant at that place, provided a reasonable proposition is submitted. The view that we take of this matter makes it unnecessary to comment on applicant's other proposed expenditures, its rates or stock issue, other than what has been said about the provisions of this ordinance by incorporation."

It appears that applicant has amended its Articles of Incorporation. They provide for an authorized stock issue of \$200,000. divided into 1,000 shares of common and 1,000 shares of preferred, each of the par value of \$100. per share. Under the company's Articles of Incorporation the holders of preferred stock are entitled to receive, and the corporation shall be bound to pay, out of any and all surplus or profits, whenever ascertained, cumulative dividends at the rate of seven percent per annum, payable annually, before any dividend shall be declared on the common stock; that no dividend upon the common stock shall ever be declared or paid until all cumulated dividends on the preferred stock have been paid. The preferred stock may be redeemed at the option of the company at \$105. per share plus accumulated dividends. In the event of the sale of the corporation's properties or of its liquidation either by dissolution or otherwise, the holders of the preferred stock shall be entitled to participate in the distribution of the assets of the corporation, and the holders of the common stock shall not participate in the distribution thereof until the holders of the preferred stock shall have been paid \$100. plus all cumulated dividends for each share

of stock so held.

In this proceeding the company asks permission to issue \$50,000. of common and \$80,000. of seven percent cumulative preferred stock to pay for the gas plant and appurtenances which it intends to construct.

The company reports the cost of its proposed gas plant and appurtenances at \$104,000., as compared with an estimated cost of \$145,000. reported in Application No. 13724. The \$104,000. is made up of the following items:-

Cost of construction as per contract between applicant and one E. A. MacGillivray, a copy of which is filed as Exhibit "I".	\$79,500.
Material for 200 additional services	1,000.
Purchase of real property	6,000.
Engineering and legal expenses incurred in the formation and completion of plant distributing system	3,000.
Labor for installing 700 services at \$2. per service	1,400.
Franchise	2,325.
Organization expenses	1,475.
Working capital	<u>11,600.</u>
Total.....	<u>\$104,000.</u>

The contract between applicant and E. A. MacGillivray, dated June 6, 1927, provides that it is subject to the approval of the Railroad Commission. It is not customary for the Commission to approve construction contracts of a nature such as that filed in this proceeding as Exhibit "I". We might state, however, that assuming that the contractor will build a plant such as represented, the cost of \$79,500. appears reasonable. The contract provides that the \$79,500. shall be paid as follows:-

- \$35,000. as soon as corporate funds are available.
- 14,834. when material going into the plant and ground is delivered at Oceanside.
- 14,833. when the contract is completed; and the balance
- 14,833. thirty days after completion.

The record shows that Lots 1, 2, 3 and 4 of Block 47, Bryan's addition to the City of Oceanside, County of San Diego, shown by Map 219 filed and recorded in the office of the County Recorder of said county, March 10, 1887, have been acquired by Curtis E. Flint and that he has agreed to transfer such lots to applicant for \$4,000. cash and the assumption by applicant of a \$2,000. seven percent note se-

cured by a trust deed which is a lien on said property. We believe that said lots should be transferred to applicant for an aggregate consideration of not exceeding \$4500.00. The order herein will permit the company to pay \$2500.00 in cash and assume the payment of the \$2,000. note.

Applicant estimates its organization, engineering and legal expenses at \$4,475.00. For working capital it desires an allowance of \$11,600.00. In our opinion the organization expenses, engineering and legal expenses should not exceed \$2,500.00, while an allowance of \$7,500.00 for working capital, we feel, is ample. Giving effect to the adjustments, the estimated cost of applicant's plant is reduced from \$104,000. to \$96,425.

The company asks permission to expend twenty percent of the proceeds realized from the sale of its stock to pay the cost of selling the same, including commissions and other expenses. Such an allowance we feel is excessive in this instance. The order herein will allow fifteen percent of the par value of the stock sold. It will further allow the issue of \$50,000. of common and \$63,500. of the preferred stock to finance the acquisition and construction of applicant's properties. The proceeds other than the fifteen percent shall be deposited in a bank or banks and expended from time to time, as permitted by supplemental orders. When applicant desires to withdraw any of the moneys on deposit, it should file a supplemental application herein, setting forth in detail the cost of the properties to be paid through such withdrawals.

The testimony shows that Oceanside has a population of about 4,000. There is at this time no other public utility selling gas in Oceanside. Both the Chamber of Commerce and the Board of Trustees urge the granting of this application. Representatives of applicant believe that at the end of the first year it will have 300 consumers and that ultimately it should have 700 consumers. It proposes to

charge the following rates:-

	Gross	Net	
First 500 cu.ft. (Minimum)	\$1.60	\$1.50	
Next 4500 cu.ft.	2.10	2.00	per 1000 cu.ft.
Next 5000 cu.ft.	1.75	1.65	per 1000 cu.ft.
Next 10000 cu.ft.	1.40	1.30	per 1000 cu.ft.
Next 20000 cu.ft.	1.30	1.20	per 1000 cu.ft.
All over 40000 cu.ft.	1.05	1.00	per 10000 cu.ft.

Net rates to apply to all bills paid on or before the tenth of the month next following date of bill.

O R D E R

South Coast Gas Company having requested permission to perform the acts referred to in the foregoing opinion, a public hearing having been held before Examiner Rankhauser and the Railroad Commission being of the opinion that said company should be permitted to issue not exceeding \$113,500. par value of stock, and that the money, property or labor to be procured or paid for by the issue of such stock is reasonably required by applicant, and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income, and that the company should be permitted to exercise the rights and privileges granted by Ordinance No. 312 of the City of Oceanside and charge the rates referred to in this order, and that this application should be granted as herein provided, therefore,

THE RAILROAD COMMISSION HEREBY DECLARES that public convenience and necessity require and will require South Coast Gas Company to exercise the rights and privileges granted by Ordinance No. 312 of the City of Oceanside and to construct and operate the gas plant referred to herein, provided that South Coast Gas Company shall first have filed with the Railroad Commission a stipulation duly authorized by its Board of Directors declaring that South Coast Gas Company, its successors and assigns, will never claim before the Railroad Commission or any court or other public body, a value for said rights and privileges in excess of the amount actually paid to the City of

Oceanside as the consideration for the grant of such franchise, which amount is represented by the South Coast Gas Company to have been \$25.00 and shall have received from the Railroad Commission a supplemental order declaring that such stipulation has been filed in form satisfactory to the Railroad Commission.

IT IS HEREBY ORDERED that the South Coast Gas Company be, and it is hereby, authorized to issue and sell for cash at not less than par on or before December 31, 1927, \$50,000.00 par value of its common capital stock and \$63,500.00 par value of its seven percent cumulative preferred stock and expend of the proceeds, if necessary, an amount not exceeding fifteen percent of the par value of the stock sold to pay the cost of selling said stock, including commissions and all other expenses incident to such sale. The remainder of the proceeds and such portion of the fifteen percent not needed for the purposes mentioned shall be deposited with a bank or banks and expended only for such purposes as the Commission will hereafter authorize by supplemental order or orders, it being understood that said proceeds will be used to pay the cost of acquiring and constructing the gas plant referred to in the foregoing opinion, provided that \$2500. of said proceeds may be forthwith paid to Curtis E. Flint, as payment for the real property, referred to in the foregoing opinion and which he has agreed to transfer to applicant.

IT IS HEREBY FURTHER ORDERED that South Coast Gas Company may assume the payment of the \$2,000, seven percent note secured by a trust deed which is a lien on the property which it intends to acquire from Curtis E. Flint.

IT IS HEREBY FURTHER ORDERED that the South Coast Gas Company be, and it is hereby, directed to file with the Railroad Commission

the following schedule of rates:-

	Gross	Net
First 500 cu. ft. (Minimum)	\$1.60	\$1.50
Next 4500 cu. ft.	2.10	2.00 per 1000 cu. ft.
Next 5000 cu. ft.	1.75	1.65 per 1000 cu. ft.
Next 10000 cu. ft.	1.40	1.30 per 1000 cu. ft.
Next 20000 cu. ft.	1.30	1.20 per 1000 cu. ft.
All over 40000 cu. ft.	1.05	1.00 per 1000 cu. ft.

Net rates to apply to all bills paid on or before the tenth of the month next following date of bill.

The company shall also file rules and regulations to govern its relations with consumers.

IT IS HEREBY FURTHER ORDERED that this application insofar as it involves the issue of \$16,500. of preferred stock be, and the same is hereby, dismissed without prejudice.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall become effective when applicant has paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which fee is \$25., and that South Coast 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 insofar as applicable, is made a part of this order.

DATED at San Francisco, California, this 8th day of July, 1927.

Fee \$ 25.⁰⁰/₁₀₀
RAILROAD COMMISSION
SAN FRANCISCO, CALIF.
JUL 10 1927
A. P. Matthews
No. 24360

Emmerts
Cheney
Thos. S. Barrett
Commissioners