

Decision No. 18844

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHWESTERN GAS & FUEL COMPANY)
 and)
 TWIN CITIES GAS COMPANY)
 for authority for the Southwestern)
 Gas & Fuel Company to purchase the)
 properties of the Twin Cities Gas)
 Company and for the latter company)
 to sell its properties and for)
 authority for the Southwestern Gas)
 & Fuel Company to issue shares of)
 its common stock of the par value)
 of \$40,000.00 and its first)
 mortgage bonds at a face value of)
 \$114,500.00.)

ORIGINAL

Application No. 13994.

Gibson, Dunn and Crutcher by
S. M. Haskins, for applicants.

BY THE COMMISSION:

O P I N I O N

Twin Cities Gas Company asks permission to sell its properties to Southwestern Gas & Fuel Company, which asks permission to acquire said properties, issue \$40,000.00 of stock and \$114,500.00 of bonds for the purposes hereinafter stated, and execute a mortgage or deed of trust to secure the payment of the bonds.

Twin Cities Gas Company is engaged in selling gas in Banning, Beaumont, Hemet and San Jacinto. As of June 30, 1927, it had 866 meters connected and in use and 339 services not in use. The company has an authorized stock issue of \$25,000.00 and an authorized bond issue of \$100,000.00. On June 30, 1927, it

reports \$25,000.00 of stock, \$79,500.00 of bonds and \$15,245.22 of notes outstanding. The notes are payable to J. M. Berkeley who owns substantially all of the company's outstanding stock. All of the moneys realized from the issue of the notes except \$1,240.16 were used for construction purposes. The \$1,240.16 was expended for materials and supplies, taxes and insurance. J. M. Berkeley has agreed to accept at par \$15,000.00 par value of stock of Southwestern Gas & Fuel Company in payment for a like amount of the notes issued to him by Twin Cities Gas Company.

The Southwestern Gas & Fuel Company was organized on or about May 19, 1927, with an authorized capital stock of \$250,000.00 divided into 2,500 shares of \$100.00 each. The company asks permission to issue \$40,000.00 of the stock. If authorized, it will issue \$25,000.00 of the stock in exchange for the \$25,000.00 of outstanding stock of Twin Cities Gas Company and \$15,000.00 in part payment of the notes to which reference has been made.

Until recently the Twin Cities Gas Company has been generating and distributing artificial gas. It now obtains natural gas from the Southern California Gas Company. To distribute the natural gas the company or its predecessor has expended or will expend approximately \$37,730.00 for the following purposes (Exhibit 3):-

Installing 75,000' of 3" pipe from Beaumont Gas Works to San Jacinto or Hemet Gas Works	\$28,325.00
Installing 5,000' of 4" pipe from end of Southern California Gas Company line at city limits of Beaumont to Beaumont Gas Works	3,965.00
Yard piping and high pressure meters.	1,000.00
Organization expenses incidental to organizing Southwestern Gas & Fuel Co. and transferring to such company the properties of Twin Cities Gas Co. including legal, state and Railroad Commission expenses, estimated	3,500.00
Interest during construction.	540.00
Engineering, estimated.	<u>400.00</u>
Total	<u>\$37,730.00</u>

The pipe lines have been installed and are in service. On August 19th Twin Cities Gas Company began to distribute natural gas in Beaumont and Banning and on August 23rd in Hemet and San Jacinto. Southwestern Gas & Fuel Company asks permission to issue \$114,500.00 of first mortgage six percent twenty year bonds. Of the bonds, \$79,500.00 will be issued in exchange for a like amount of bonds of Twin Cities Gas Company and \$35,000.00 sold at 90 and the proceeds used to pay in part the cost of the above mentioned new properties and expenses, or pay debts incurred on account of such expenditures.

Upon the completion of the construction to which reference has been made and the transfer of the properties, Southwestern Gas & Fuel Company will become the owner of property representing, according to Exhibit 3, an investment of \$155,806.32 against which it would have outstanding \$154,000.00 of stocks and bonds. It is the opinion of J.M. Berkeley that with the introduction of natural gas the company will be successful in materially increasing the sale of gas and thus increase its revenues. The operating revenues are estimated at \$62,787.00 and the operating expenses, including depreciation and taxes, at \$53,440.89, leaving a gross income available for bond interest of \$9,346.11.

The company has filed with the Commission a copy of its proposed mortgage or deed of trust (Exhibit E). We have examined the proposed trust indenture, which will secure the payment of an authorized bond issue of \$1,000,000.00. After the initial issue of bonds, to-wit: the \$114,500.00 authorized by the order herein, the trustee may certify additional bonds in an amount equal to seventy-five percent of the actual cost or the fair value (whichever is less) of properties acquired. The trust indenture should be amended so that none of the changes which are now permitted to be made with the consent of the holders of three-fourths in principal amount of all the bonds outstanding, may be made without the consent of the holders of at least eighty percent of the bonds outstanding. It should further

be understood that by authorizing the execution of the mortgage, the Commission will not be under any obligation to authorize the issue of bonds up to seventy-five percent of the cost or reasonable value of property acquired, it being the policy of the Commission to allow not to exceed sixty per cent of such cost or reasonable value except under extraordinary conditions.

O R D E R

Twin Cities Gas Company having applied to the Railroad Commission for permission to sell its properties to Southwestern Gas & Fuel Company and Southwestern Gas & Fuel Company having asked permission to purchase said properties and to issue \$40,000.00 of stock and \$114,500.00 of bonds and execute a mortgage or deed of trust to secure the payment of such bonds, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of the stocks and bonds herein authorized is reasonably required by Southwestern Gas & Fuel Company and that the expenditures herein authorized 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. Twin Cities Gas Company may sell all its properties to the Southwestern Gas & Fuel Company pursuant to the terms and conditions of the agreement filed in this proceeding as Exhibit D.
2. Southwestern Gas & Fuel Company may acquire and operate the properties of Twin Cities Gas Company and issue in payment therefor \$40,000.00 of common stock, \$79,500.00 of first mortgage six percent twenty year

bonds, said stock and bonds to be issued pursuant to the terms and conditions of the agreement filed in this proceeding as Exhibit D.

3. Southwestern Gas & Fuel Company may issue and sell on or before December 31, 1927, at not less than ninety percent of their face value and accrued interest \$35,000.00 of six percent first mortgage twenty year bonds and use the proceeds to pay for the improvements referred to in the foregoing opinion or to pay indebtedness incurred to pay for such improvements.
4. Southwestern Gas & Fuel Company may execute a mortgage or deed of trust substantially in the same form as the mortgage or deed of trust filed in this proceeding and marked Exhibit E provided said mortgage or deed of trust is modified as indicated in the foregoing opinion, and provided further, that the authority herein granted to execute said mortgage or deed of trust is for the purpose of this proceeding only, and is granted insofar as this Commission has jurisdiction under the terms of the Public Utilities Act and is not intended as an approval of said mortgage or deed of trust as to such other legal requirements to which said mortgage or deed of trust may be subject.
5. Southwestern Gas & Fuel Company shall within thirty (30) days after the execution of the mortgage or deed of trust referred to herein, file with the Commission a certified copy of such instrument.
6. The authority herein granted will become effective when Southwestern Gas & Fuel Company has paid the fee

prescribed by Section 57 of the Public Utilities Act,
which fee is Thirty-five (\$35.00) dollars.

7. Southwestern Gas & Fuel Company shall keep such record of the issue, sale and delivery of the stock and bonds 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 29th
day of September, 1927.

Ernest C. ...
Charles ...
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...
...
Commissioners.

Fee # 35.00
RAILROAD COMMISSION
STATE OF CALIFORNIA
SEP 8 1927
By A. C. Mathison
SECRETARY
Fee # 75500