

Decision No. 13898

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
MIDWAY GAS COMPANY,
a California corporation, for an order
authorizing it to sell, and of South-
ern California Gas Company, a California
corporation, for an order authorizing it
to buy, all of the property of said Mid-
way Gas Company; of said Southern Cali-
fornia Gas Company for an order author-
izing it to issue bonds and approving the
form of the mortgage (to be executed by
both Southern California Gas Company and
Midway Gas Company) securing the same;
and of said Southern California Gas Com-
pany for a certificate of public conven-
ience and necessity to exercise certain
franchise rights.

ORIGINAL

Application No. 13898

In the Matter of the Application of
MIDWAY GAS COMPANY,
to buy all of the capital stock and all
the properties of Central Counties Gas Com-
pany and of Central Counties Gas Company
to sell all of its properties (located in
the City of Lindsay, County of Tulare;
City of Tulare, County of Tulare; City of
Exeter, County of Tulare; City of Porter-
ville, County of Tulare; City of Visalia,
County of Tulare and in the County of Tu-
lare); for authority for Midway Gas Company
to issue and sell short term notes in pay-
ment therefor; and of Midway Gas Company for
certificates of public convenience and
necessity to exercise certain franchise
rights granted by said Cities in said County)

Application No. 13972

In the Matter of the Application of
MIDWAY GAS COMPANY,
to buy all of the capital stock and all of
the properties of Hanford Gas and Power
Company and of Hanford Gas and Power Com-
pany to sell all of its properties located
in the City of Hanford; for authority for
Midway Gas Company to issue and sell short
term notes in payment therefor; and of Mid-
way Gas Company for a certificate of public
convenience and necessity to exercise fran-
chise rights in said City of Hanford.

Application No. 13973

Railroad Commission make its order, that;-

"(1) Midway Gas Company may sell and transfer, and Southern California Gas Company may purchase and acquire, subject to existing mortgages thereon, all of the properties, franchises and other assets of Midway Gas Company (including therein the properties, franchises and other assets of Valley Natural Gas Company, Central Counties Gas Company, Hanford Gas and Power Company and Riverbend Gas and Water Company, which Midway Gas Company proposes to acquire if and when permitted so to do in accordance with applications to that effect now on file with this Commission), in consideration of the payment to Midway Gas Company of \$12,795,200. in cash (or its equivalent in bonds and/or common stock as below asked for) and the assumption, payment or discharge by Southern California Gas Company of all of the debts and other obligations of Midway Gas Company (including those of the above mentioned companies, the assets of which Midway Gas Company proposes to acquire as above mentioned).

(2) Southern California Gas Company may execute a mortgage or deed of trust substantially in the same form as the proposed Indenture dated as of September 1, 1927, of Southern California Gas Company to The Chase National Bank of the City of New York and to Union Bank & Trust Co. of Los Angeles as Trustees, filed with this supplemental application; and Midway Gas Company may execute an indenture subjecting its properties and franchises (not therein excepted) to the lien and charge of said last mentioned mortgage or deed of trust, such indenture to be in substantially the same form as the proposed Indenture dated September 1, 1927, of Midway Gas Company to said The Chase National Bank of the City of New York and to Union Bank & Trust Co. of Los Angeles as Trustees, (filed on September 30th) with this supplemental application.

(3) Southern California Gas Company may issue and sell not exceeding 200,000 shares of its common capital stock of the par value of \$25. each at a price or prices equivalent in the aggregate to not less than \$50. for each share issued, and also \$8,646,000. in principal amount of its thirty-year 5% bonds due September 1, 1957, designated as its 'First Mortgage and Refunding Gold Bonds, 5% Series due 1957' (being the bonds of the first series described in said proposed Mortgage and Deed of Trust and the issuance of which is authorized by the provisions of \$3.03 thereof), and use the proceeds of said bonds and common stock as follows, namely:

(a) \$12,795,200. to be paid Midway Gas Company as aforesaid:

(b) \$3,740,000. to the payment of indebtedness to banks incurred by Southern California Gas Company and Midway Gas Company in connection with the purchase and/or redemption on September 1, 1927, of \$2,747,000. of First and Refunding Mortgage 7% Bonds, Series 'A', of Southern California Gas Company, and \$883,000. of First Mortgage 6% Bonds of Midway Gas Company, or to the repurchase of any First and Refunding Mortgage 5 $\frac{1}{2}$ % Bonds, Series 'B', which may be issued for that purpose as below asked for;

- (c) \$442,739. to the payment of the notes which will have been issued by Midway Gas Company in payment for the capital stocks of Central Counties Gas Company, Hanford Gas and Power Company and Riverbend Gas and Water Company;
- (d) \$513,230. to the purchase or redemption of the outstanding bonds of the three companies last mentioned not heretofore purchased by Southern California Gas Company;
- (e) And the balance, if any, together with the amount received by Southern California Gas Company as accrued interest on the bonds so issued, to reimburse the treasury of Southern California Gas Company for expenditures made out of its general funds in the purchase or redemption of bonds of the issues above mentioned and for general corporate purposes.

(4) Southern California Gas Company may deliver, and Midway Gas Company may accept, if and upon such terms as they may agree to as between themselves, bonds and/or shares of common stock of Southern California Gas Company, the issuance of which is above asked for, at not less than the prices therefor above asked to be authorized respectively, in lieu of the cash payment of \$12,795,200 or any part thereof.

(5) Southern California Gas Company may, pending the issuance of said new bonds and shares of common stock, issue not exceeding \$6,747,000. principal amount of its First and Refunding Mortgage 5½% Gold Bonds, Series 'B', due September 1, 1952, and may deliver not exceeding \$3,740,000. thereof at not less than par and accrued interest, in settlement of all or any part of the bank indebtedness of \$3,740,000. above mentioned, provided that it shall make such arrangements with said banks as will enable it to repurchase the bonds so issued upon the issuance by it of the new thirty-year 5% bonds above asked for; and Southern California Gas Company may pledge and deposit all of said First and Refunding Mortgage 5½% Bonds, Series 'B' (including any thereof issued as aforesaid and repurchased), with Union Bank & Trust Co. of Los Angeles as California Trustee under the above mentioned proposed Indenture of Southern California Gas Company dated September 1, 1927.

(6) Southern California Gas Company be granted a Certificate of Public Convenience and Necessity to take, operate under, and exercise all rights and privileges and assume all burdens and obligations under each and all of the franchises and other contracts of Midway Gas Company (including those of said Valley Natural Gas Company, said Central Counties Gas Company, said Hanford Gas and Power Company and said Riverbend Gas and Water Company) transferred to Southern California Gas Company.

(7) For such other and further order and relief in the premises as to this Commission may seem just and meet."

In Application No. 13972, 13973 and 13974, as amended at the hearing had on August 10th, the Midway Gas Company asks permission to acquire all of the capital stock of Central Counties Gas Company, Hanford Gas and Power Company and Riverbend Gas and Water Company, and said Central Counties Gas Company, Hanford Gas and Power Company and Riverbend Gas and Water Company ask permission to sell all of their properties to Midway Gas Company, which asks permission to purchase said properties, and for a certificate of public convenience and necessity to exercise certain franchise rights granted to said companies.

In Application No. 13975, as amended at the hearing had on August 10th, the Valley Natural Gas Company asks permission to sell all of its properties to Midway Gas Company, which asks permission to purchase said properties and for a certificate of public convenience and necessity to exercise certain franchise rights in Kern County.

Riverbend Gas and Water Company, organized in 1915, is engaged in manufacturing and selling artificial gas in Dinuba, Reedley, Kingsburg, Parlier and vicinity and in producing and selling water in Parlier and vicinity. For the year 1926 the company reports operating revenues from the sale of gas in the amount of \$67,590.00 and from the sale of water in the amount of \$5,933.19. The company has \$173,417.00 of stock and \$190,000.00 of funded debt outstanding.

The Hanford Gas and Power Company was organized in 1902 and is engaged in manufacturing and selling artificial gas in Hanford. For 1926 the company reports operating revenues of \$59,921.67. It has \$100,000. of stock and \$70,000. of funded debt outstanding.

The Central Counties Gas Company was organized in 1918 and is engaged in manufacturing and selling artificial gas in Visalia, Forterville, Lindsay, Tulare, Exeter and vicinities. For 1926 it reports operating revenues of \$246,688.30. Its outstanding stock is reported at \$182,199.00; its funded debt at \$562,000.00.

By Decision No. 6633 dated August 30, 1919 (Volume 17, Opinions and Orders of the Railroad Commission of California, page 248) the Commission authorized Midway Gas Company to purchase the stock of Valley Natural Gas Company and permitted Valley Natural Gas Company to lease its properties to Midway Gas Company.

Upon the acquisition of the stock of the companies mentioned, by Midway Gas Company, that company would cause the properties of the several companies to be transferred to it. In payment for the stock the Midway Gas Company would issue \$442,739.00 of short term notes and assume all the obligations of the companies and acquire all of their current assets. Upon the discharge of the obligations the several companies would be dissolved and the notes which they have received in payment for their properties would be returned to the Midway Gas Company. The net cost of the properties to the Midway Gas Company as of April 30, 1927 is reported at \$1,442,642.42 which is segregated as follows:-

Stock	\$442,739.00
Redemption of \$822,000. of bonds	646,330.00
Payment of current liabilities.	210,230.11
Payment of accrued liabilities	38,742.95
Construction deposits to be returned	1,862.97
A.E. Peat suspense account	34,352.50
Total cost	<u>1,574,307.53</u>
Deduct current assets.	131,665.11
Leaving net cost of	<u>\$1,442,642.42</u>

Upon the acquisition of the properties, Midway Gas Company intends to execute an indenture which shall be a direct first lien on its properties. Thereafter it will transfer its properties, including those of the other companies mentioned, to the Southern

California Gas Company with the result that the first mortgage and refunding gold bonds of the Southern California Gas Company will be a first lien on the properties, formerly owned by Midway Gas Company. A revised copy of the proposed indenture was filed on September 30th in Application No. 13898.

The Midway Gas Company was organized in 1911. It is engaged as a public utility, in producing, buying, collecting, transmitting, distributing, and selling natural gas in the Counties of Kern, Ventura, Los Angeles and Orange, State of California, and in some of the cities and towns located in said counties, to a few domestic and commercial consumers, to several large industrial consumers and to other large public utility companies who in turn are engaged in distributing the same. The company asks permission to sell and Southern California Gas Company, permission, to buy all of the property of Midway Gas Company, including the properties of said Valley Natural Gas Company, said Central Counties Gas Company, said Hanford Gas and Power Company and said Riverbend Gas and Water Company, if acquired by said Midway Gas Company, real personal and/or mixed and wheresoever situated, including all physical property, franchises, permits, easements, rights and other privileges. The Southern California Gas Company desires to assume all of the debts and obligations of Midway Gas Company and that company will take all the benefits and assume all the burdens of the contracts and franchises of Midway Gas Company and will perform all the duties of a public service corporation, previously performed by Midway Gas Company, and further desires a certificate of public convenience and necessity to take, operate under and exercise all rights and privileges and assume all burdens and obligations under each of the franchises and other contracts of Midway Gas Company.

The Southern California Gas Company asks permission to pay for the properties of Midway Gas Company \$12,795,200.00 and in addition assume all of the indebtedness of that company. If the Southern California Gas Company pays that sum for the properties it must be received from the sale of securities authorized by the order herein and may not be obtained by incurring any indebtedness, or by using earnings other than surplus earnings available for the payment of dividends.

Southern California Gas Company asks permission to issue and sell at not less than 94 percent of face value and accrued interest, \$8,646,000.00 of 30-year five percent bonds due September 1, 1957, and to issue and sell not exceeding 200,000 shares of its common capital stock of the par value of \$25. each at a price or prices equivalent in the aggregate to not less than \$50. for each share issued, and to use said bonds and/or said common stock and/or the proceeds from the sale thereof for purposes indicated on pages three and four of this opinion.

The order herein will authorize the issue of the common stock at not less than par.

The Southern California Gas Company also asks permission to execute a mortgage and/or deed of trust to secure the payment of its first mortgage and refunding gold bonds. A copy of this mortgage has been filed September 30th in Application No. 13898. It provides, among other things, that the trustees may from time to time certify bonds equal in amount to seventy-five percent of the cost or reasonable value, whichever is less, of property acquired. While we have no objection to the execution of the mortgage containing such a provision, it should be understood that by authorizing the execution of said mortgage, the Commission will be under no obligation to authorize the issue of bonds up to seventy-five percent of said cost or reasonable value, it being the policy of the Commission to allow not to exceed sixty percent of such cost or reasonable value except under extraordinary conditions.

Southern California Gas Company also asks permission to issue not exceeding \$6,747,000. of its first and refunding mortgage five and one half percent gold bonds, Series "B", due September 1, 1952, and to deliver not exceeding \$3,740,000. thereof at not less than par and accrued interest in settlement of all or any part of the bank indebtedness of \$3,740,000.00 mentioned above, provided it can make such arrangements with the banks as will enable it to re-purchase the bonds so issued upon the issuance by it of the new thirty year five percent bonds. Upon the re-acquisition of the \$3,740,000. of bonds, said \$3,740,000. and the remaining \$3,007,000. of said Series "B" bonds they will be deposited with the Union Bank and Trust Company, as security for the payment of the company's new first mortgage and refunding gold bonds.

Appraisals of the properties and financial statements of the different companies were submitted by witnesses for applicants. In Exhibit No. 6 the historical cost of the combined properties, using present value of land and including working capital, but nothing for going value, development costs, cost of financing and value of gas purchase contracts, is reported at \$48,404,970.00. Applicant's witnesses testified that no study was made of the accrued depreciation, and that they were unable to inform the Commission of the estimated historical cost of the properties less depreciation. The financial statements submitted, however, do show reserves for accrued depreciation. The reproduction cost new of the consolidated properties as of August 31, 1927 is reported (Exhibit No. 7) at \$66,030,100.00 which included \$3,005,300.00 for cost of financing, and \$5,925,000.00 for going value. The reproduction cost new less depreciation is reported at \$65,270,100.00. It was explained that the only amount deducted was the estimated cost, \$760,000.00, to place the properties in a one hundred percent operating condition.

The appraisals and financial statements submitted were examined by us and the conclusion reached that Southern California Gas Company should not issue more than \$17,000,000.00 of first mortgage and refunding gold bonds and \$5,000,000.00 of common stock in place of the \$26,785,000.00 of bonds requested at the hearings to consolidate the properties of the several companies and refund indebtedness referred to in the applications. In order to avoid duplicate interest charges the Southern California Gas Company has concluded not to refund at this time \$8,354,000. of its bonds, with the result that the request to issue first mortgage and refunding bonds has been reduced from \$17,000,000.00 to \$8,646,000.00.

As of April 30, 1927 the Southern California Gas Company reports stocks and bonds outstanding as follows;-

Common stock	\$6,000,000.00
Preferred stock	3,840,350.00
Stock subscriptions preferred	513,294.50
Total stock.....	<u>10,353,644.50</u>
Bonds	<u>17,242,000.00</u>
Total stock and bonds...	<u>\$27,595,644.50</u>

The outstanding bonds consist of \$4,295,000.00 of first mortgage sixes due November 1, 1950; of \$2,747,000.00 of first and refunding Series "A" sevens due March 1, 1951; of \$6,200,000. of first and refunding Series "B" five and 1/2s due September 1, 1952; and of \$4,000,000. of first and refunding Series "C" sixes due June 1, 1958. Since April 30, 1927 the company has redeemed the \$2,747,000.00 of seven percent bonds at 107-1/2. The Midway Gas Company has also redeemed its \$883,000.00 of six percent bonds at par. To redeem the bonds the two companies borrowed from banks \$3,740,000.00.

Upon the completion of the financing to which reference has been made, Southern California Gas Company will have outstanding

in the hands of the public, stocks and bonds as follows;-

Common stock	\$11,000,000.00
Preferred stock	3,840,350.00
Preferred stock subscribed	513,294.00
Bonds	<u>23,200,000.00</u>
Total.....	<u>\$38,553,644.00</u>

Midway Gas Company and Southern California Gas Company ask that they be granted certificates of public convenience and necessity to take, operate under and exercise all rights and privileges and assume all burdens and obligations under each and all of the franchises and other contracts which they intend to acquire. A list of the franchises has been filed in this proceeding. There is nothing, however, in the record to indicate to what extent the several companies or their predecessors in interest have exercised the rights and privileges granted in said franchises, neither does the testimony show that public convenience and necessity require the Midway Gas Company or the Southern California Gas Company to exercise the rights and privileges under each and every franchise. We believe that this Commission, before granting a certificate of public convenience and necessity such as requested, should be furnished with a statement showing the extent to which the several companies or the grantees of the franchises have operated under each of the franchises and that public convenience and necessity require the granting of the certificate requested. The several companies may transfer whatever interest they may have in the franchises, but no certificate of public convenience and necessity such as requested will be granted until the Commission is furnished with the information referred to and such other information as will justify it to grant the certificate requested. Applicants should also file a stipulation duly authorized by their Board of Directors declaring that they, their successors and assigns will never claim before the Railroad Commission or any court or other public body as a value for the rights and privileges granted under each and every franchise an amount in excess of the amount actually paid therefor. The amount paid for each franchise should be set forth in the stipulation.

O R D E R

The Commission having been asked to enter its order as indicated in the foregoing opinion, a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion that the money, property or labor to be procured or paid for through the issue of \$8,646,000.00 of five percent first mortgage and refunding gold bonds and \$5,000,000.00 of common stock and \$6,747,000.00 of five and one half percent first and refunding mortgage bonds is reasonably required by the Southern California Gas Company, and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income, and that these applications should be granted, as herein provided, therefore,

IT IS HEREBY ORDERED as follows;-

1. Midway Gas Company may acquire the outstanding stock of Central Counties Gas Company and said Central Counties Gas Company may sell all of its properties, more particularly described in Exhibit No. 10, to Midway Gas Company.
2. Midway Gas Company may acquire all the outstanding stock of Hanford Gas and Power Company and said Hanford Gas and Power Company may sell all of its properties, more particularly described in Exhibit No. 12 to Midway Gas Company.
3. Midway Gas Company may acquire all of the outstanding stock of Riverbend Gas and Water Company, and said Riverbend Gas and Water Company may sell all of its properties, more particularly described in Exhibit No. 11 to Midway Gas Company.
4. Valley Natural Gas Company may sell all of its properties, more particularly described in Exhibit No. 13 to Midway Gas Company.

5. Midway Gas Company may purchase and operate the aforementioned properties and execute a trust indenture substantially in the same form as the trust indenture filed in this proceeding on September 30th, provided that the authority herein granted to execute said indenture 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 trust indenture as to such other legal requirements to which said trust indenture may be subject.

6. Midway Gas Company may sell all of its properties, more particularly described in Exhibit No. 9, together with the properties which it is herein authorized to purchase, from Central Counties Gas Company, Hanford Gas and Power Company, Riverbend Gas and Water Company and Valley Natural Gas Company, to Southern California Gas Company, which company is hereby permitted to purchase said properties.

7. Southern California Gas Company may execute a mortgage and/or deed of trust substantially in the same form as the mortgage and/or deed of trust filed in this proceeding on September 30th provided that the authority herein granted to execute said mortgage and/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 and/or deed of trust as to such other legal requirements to which said mortgage and/or deed of trust may be subject.

8. Southern California Gas Company may issue and sell at not less than 94 percent of their face value and accrued interest, \$8,645,000.00 of its first mortgage and refunding five percent gold bonds due September 1, 1957, and at not less than its par value, \$5,000,000.00 of its common capital stock and use said bonds and stock or the proceeds thereof, for the purposes men-

tioned in the foregoing opinion, provided that no indebtedness other than that authorized by this order may be incurred in connection with the purchase of the properties and the refunding of the indebtedness referred to herein.

9. Southern California Gas Company may, pending the issue of said \$8,646,000.00 of first mortgage and refunding bonds and the issue of said \$5,000,000.00 of common stock, issue not exceeding \$6,747,000.00 of its first and refunding mortgage five and one half percent gold bonds, Series "B", due September 1, 1952, and deliver not exceeding \$3,740,000.00 thereof at not less than par and accrued interest, in settlement of all or any part of the bank indebtedness of \$5,740,000.00 above mentioned, provided that it make such arrangements with said banks as will enable it to re-purchase at par the bonds so issued upon the issuance by it of said first mortgage and refunding five percent bonds. Upon the re-acquisition of the \$3,740,000.00 of bonds, or such portion as may be issued in payment for bank loans, said bonds, together with the remainder of the \$6,747,000.00 of bonds, shall be pledged and deposited with the Union Bank and Trust Company of Los Angeles as California trustee under the mortgage and/or deed of trust which Southern California Gas Company is herein authorized to execute.

10. The authority herein granted will become effective when Southern California Gas Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$4,823.00.

11. Southern California Gas Company shall keep such record of the issue, sale and delivery of the bonds and 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.

12. The consideration which the Midway Gas Company and Southern California Gas Company may pay for the properties which they are herein authorized to purchase shall not be urged before this Commission as the value of such properties for any purpose other than the transfer herein authorized.

13. Within thirty days after their execution Southern California Gas Company shall file with the Railroad Commission two certified copies of the trust indenture which the Midway Gas Company is herein authorized to execute and two certified copies of the mortgage and/or deed of trust which Southern California Gas Company is herein authorized to execute.

14. Within ninety days after the transfer of the properties herein authorized, Midway Gas Company and Southern California Gas Company shall file a certified copy of the deeds and bills of sale under which they acquired the properties referred to herein, and a copy of each and every book entry recording the purchase and payment for said properties, together with a statement showing by accounts the final distribution of the cost of the properties to Southern California Gas Company.

DATED at San Francisco, California, this 11th day of October, 1927.

Emmanuel
C. Seaman
Leon White
Thos. J. Powell
W. J. C.
Commissioners.

