

persons for the intangible and tangible property items mentioned in its petition and the amount of common stock, if any, which applicant may issue to the incorporators of the company as and for their promotion fee.

The Consumers Gas Company is a corporation organized under and by virtue of the laws of California, for the immediate purpose of engaging in the business of supplying gas for domestic and commercial consumption in the City of Paso Robles. The company has an authorized stock issue of \$500,000.00 divided into 5,000 shares of \$100.00 each. Of the 5,000 shares, 3,000 shares represent common and 2,000 shares, seven percent cumulative preferred stock. The preferred stock may be redeemed by the company at its option at \$105. per share plus accrued dividends.

The record shows that Paso Robles has a population of about 4,000. The number of electric consumers in Paso Robles is shown in Exhibit No. 10 introduced by J.E. Spelce, an assistant engineer for the Railroad Commission, at 700, the number of telephone stations at 654, and the number of houses at 633. The company estimates that at the end of twenty-four months after it completes its plant it will have 600 consumers. J.E. Spelce, on the contrary, estimates the number of consumers at that time at 450.

To show that there is a demand for gas service in Paso Robles, applicant called three witnesses who are residents of Paso Robles and whose testimony was unanimous that gas service would be a convenience. Their testimony, however, was general in its nature and shows that none of these witnesses were familiar with the rates which applicant proposes to charge, its plans and specifications or its method of financing its proposed gas plant.

The company requests permission to use twenty percent of the proceeds realized from the sale of its common stock, and ten percent of the proceeds from the sale of its preferred stock to pay stock selling commissions. Its bonds it proposes to sell at ninety and accrued interest. If its stocks and bonds were sold under these conditions it would have available for construction and other purposes, \$192,500.00.

In its petition applicant sets forth the following expenditures:-

Legal fees in connection with organization of applicant and of this application	\$5,000.00
Cost of incorporation, filing fees, recordation, franchise tax, office supplies	500.00
Engineer's preliminary survey report	2,500.00
Plans and specifications	250.00
Franchise	1,000.00
Land devoted to production operations	3,000.00
Holders, boilers, generators, purifiers, transmission mains, distribution mains, gas services, gas meters and miscellaneous accessory equipment	126,765.00
Building at plant, concrete floors, foundations for building and apparatus	10,500.00
General office equipment for office at Paso Robles, San Francisco and at plant	3,000.00
General shop equipment, trucks and tools	5,000.00
Undistributed construction expenditures	1,000.00
Engineering and supervision	4,500.00
Insurance during construction	500.00
Taxes during construction	-
Interest on bonded indebtedness during construction	3,000.00
Cost of sale of securities exclusive of commissions and discounts	5,000.00
Working capital, materials and supplies	15,000.00
Promotion allowance to incorporators	-
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Total itemized expenditures	<u>\$ 186,515.00</u>

Applicant requests the Commission to fix the promotion allowances to incorporators.

Though applicant submitted plans and specifications of its proposed plant, estimates of the cost of operation and number of consumers, none of such evidence was submitted by an engineer. Its case was presented by its secretary, Chas. M. Taylor, and by its president and attorney, Edward Schary, neither of whom qualified as an engineer. At the original hearing on November 15th, there was

a divergence of opinion between the two as to what figure they would urge the Commission to regard as a rate base, one suggesting \$188,500. and the other, \$225,000.00. At the adjourned hearing on December 4th the president of the company, the secretary not being present, stated that applicant would adopt the figure (\$161,595.00) used by J.E.Spelce, an assistant engineer of the Commission, in Exhibit No.10. It, however, made no modification in the amount of securities it desires to issue and presumably still intends to expend proceeds from the sale of stocks and bonds for such items mentioned above as were not included in J. E. Spelce's assumed rate base.

Applicant proposes to sell its \$100,000.00 of six and one half percent twenty year bonds at not less than ninety, or on about a 7.45 percent basis and in addition, pay all expenses incident to such issue. Its plan is to have them underwritten by some one who would distribute them generally to the public. As to the manner in which applicant intends to sell its stock the testimony shows the following:-

Examiner Fankhauser: How do you propose to handle the sale of your stock, common and preferred?

Chas. N. Taylor: The stock, common stock, will be sold entirely within the circle of the incorporators and their immediate friends. The preferred stock will probably be sold to the public, not in Paso Robles. There was an objection presented to me by the City Council of selling stock in Paso Robles and I told them they would not be asked to buy any stock.*****

Examiner Fankhauser: If this application is granted, who are the people that will be interested in this corporation as stockholders?

Chas. N. Taylor: The names are set out on the original Articles of Incorporation with one exception.

Examiner Fankhauser: What is the exception?

Chas. N. Taylor: Except a man named Alexander Ball.

Examiner Fankhauser: He would not be interested as a stockholder?

Chas. N. Taylor: No, he is a certified public accountant and is on there for the purpose of filling out the directorate.

Examiner Fankhauser: Would all the common stock be acquired by the other four incorporators?

Chas. N. Taylor: No, there is another party who will take the position of the fifth man, Mr. Ball. Just who will take that position, we are not prepared to say at this minute. It will be one of two or three different men we have in mind.

Examiner Fankhauser: What I am trying to ascertain is, who are the people to whom the Commission may look for the operation of this plant?

Edward Schary: Well, pardon me if I may inject--the actual operation of the plant will be in the hands of men that are mentioned there now, with the possible exception that two other names may be added in there, not increasing the number, but there may be some one else substituted as a director, see?

Examiner Fankhauser: I am not so much concerned as to who the directors are, as to who you contemplate will be the stockholders.

Edward Schary: The men, outside of ourselves, are financially well fixed, and they don't care to divulge their names in the situation at this time until the proposition is fully granted, and the purchase of the stock by them was a consideration based upon the actual going through of the enterprise. That is the proposition. We have agreed not to divulge their names at this time.

Examiner Fankhauser: Let me ask you this, then--

Edward Schary: But they are financially able to handle the deal and we are putting in all our money, too. We expect to handle a great deal of that stock ourselves.

Examiner Fankhauser: Would the common stock be generally distributed?

Edward Schary: The common stock will be generally distributed amongst about seven of us, yes.

J. E. Spelce submitted evidence relative to the probable revenues and expenses of the Consumers Gas Company. Counsel for applicant took exception to some of the conclusions reached by J.E. Spelce. Inasmuch as we feel that the record in this proceeding does not warrant us to grant the application, even were we to eliminate all of the evidence submitted by J.E. Spelce, there is no need to determine whether J.E. Spelce's conclusions are correct.

This application involves the granting of a certificate of public convenience and necessity to construct and operate an artificial gas plant at Paso Robles and the issue of stocks and bonds. Plans and specifications, construction and operating costs have been submitted by witnesses who did not qualify as gas engineers and who had no experience in actual gas plant operation. When inquiry was made as to who the responsible parties will be, we were told that their names cannot be divulged until after this application is granted. This Commission is asked to grant this application on the very

general statement that applicant will construct and operate its plant economically, but at the same time it is asked to authorize unusually large organization expenses, stock selling commissions and expenses and promotion fees. We are advised that the common stock will all be acquired by a few individuals, some of whose names are not revealed, yet a stock selling commission of twenty percent is to be allowed, and in addition thereto certain selling expenses.

Gas service, no doubt, would be a convenience to many residents of the City of Paso Robles. We are not, however, convinced from the record in this proceeding that it is in the public interest to grant a certificate of public convenience and necessity to the Consumers Gas Company, or permit that company to issue stocks and bonds on the basis set forth in this application.

ORDER

Consumers Gas Company having applied to the Railroad Commission for a certificate of public convenience and necessity to construct and operate a gas plant in the City of Paso Robles, and to issue and sell \$100,000.00 of its common stock, \$25,000.00 of its preferred stock and \$100,000.00 of its bonds, for the purposes set forth in the foregoing opinion, a public hearing having been had before Examiner Fankhauser and the Commission having considered the evidence submitted at such hearing, and being of the opinion that this application, for the reasons set forth in the foregoing opinion, should be denied without prejudice, therefore,

IT IS HEREBY ORDERED that the above entitled application
be, and the same is hereby, denied without prejudice.

DATED at San Francisco, California, this 28th day of
December, 1928.

Leon White
Chas. S. ...
Thos. S. ...
M. J. ...

Commissioners.