

HS

Decision No. 11456.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

In the Matter of the Application of)
SOUTHERN COUNTIES GAS COMPANY)
OF CALIFORNIA)
for authority to issue \$750,000.00)
par value of its common capital)
stock.)

Application No. 8452.

Leroy M. Edwards for Applicant.

BENEDICT, Commissioner.

O P I N I O N.

In this application, SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA asks permission to issue forthwith 7500 shares of its common capital stock, of the aggregate par value of \$750,000.00, in payment of a stock dividend.

Southern Counties Gas Company of California reports an authorized capital stock of \$5,000,000.00 divided equally into common and eight per cent. preferred stock. It appears that on October 31, 1922, \$1,500,000.00 of common and \$1,160,400.00 of preferred were issued and outstanding. On the common stock dividends were paid during 1918 at the rate of three per cent.; during 1919 at the rate of four and one-half per cent.; during 1920 at the rate of eight per cent.; and during 1922 at the rate of nine per cent. per annum.

The company reports its assets and liabilities as of
October 31, 1922, as follows:

ASSETS:

<u>Fixed Capital:</u>	
Intangible Capital,	\$1,081,434.94
Tangible,	10,041,006.19
Total Fixed Capital,	\$11,122,441.13
<u>Current Assets:</u>	
Cash,	110,713.80
Accounts and Notes Receivable, ..	327,247.73
Interest and tax funds,	596,696.49
Sinking fund,	91,666.00
Materials and Supplies,	350,278.43
Total Current Assets,	1,476,602.45
<u>Deferred Charges:</u>	
Unamortized discount and expense, ..	605,037.03
Taxes, insurance & miscellaneous, ..	260,756.16
Total Deferred Charges,	865,793.19
TOTAL ASSETS,	<u>\$13,464,836.77</u>

LIABILITIES:

<u>Capital Stock:</u>	
Common,	\$ 1,500,000.00
Preferred,	1,160,400.00
Installments on Preferred Stock, ..	61,262.50
Total Capital Stock,	\$ 2,721,662.50
<u>Funded Debt:</u>	
First Mortgage 5½'s, due 1936, ..	6,110,900.00
Second Mortgage 6's, due 1924, ..	700,000.00
Col.Tr. Notes, 8's, due 1930, ..	809,700.00
Total Funded Debt,	7,620,600.00
<u>Current Liabilities:</u>	
Notes Payable,	10,000.00
Accounts Payable,	1,130,126.09
Total Current Liabilities,	1,140,126.09
<u>Reserves:</u>	
Accrued Depreciation,	725,180.47
Contingencies, taxes, etc.,	199,085.68
Contingent debt,	35,396.67
Total Reserves,	959,662.82
Appreciation of property value,	84,044.99
Earned Surplus,	938,740.37
TOTAL LIABILITIES,	<u>\$13,464,836.77</u>

Section 52 of the Public Utilities Act enumerates the purposes for which a public utility may issue stock, reading in part as follows:-

"A public utility may issue stock and stock certificates, and bonds, notes and other evidences of indebtedness payable at periods of more than twelve months after the date thereof for the following purposes and no others, namely, for the acquisition of property, or for the construction, completion, extensions or improvement of its facilities, or for the improvement or

"maintenance of its service, or for the discharge or lawful refunding of its obligations, or for the reimbursement of moneys actually expended from income or from other moneys in the treasury of the public utility not secured by or obtained from the issue of stock or stock certificates, or bonds, notes or other evidences of indebtedness of such public utility for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant shall have kept its accounts and vouchers for such expenditure in such manner as to enable the commission to ascertain the amount of moneys so expended and the purposes for which such expenditure was made."

The Commission cannot authorize the issue of stock directly for the purpose of paying a dividend but can authorize the issue of stock for the purpose of enabling a utility to reimburse its treasury as provided in Section 52 of the Public Utilities Act.

An order authorizing applicant to issue stock to reimburse its treasury requires a determination of the sources from which applicant has obtained the moneys expended. Applicant's balance sheet as of October 31, 1922 shows a surplus of \$938,740.37, an amount in excess of the \$750,000.00 of stock which it desires to issue. The \$938,740.37 has been invested in property. But an analysis of applicant's financial statements shows that the surplus was built up in part because prior to 1918 applicant included very small amounts in its operating expenses on account of depreciation. Had applicant made proper allowance in its operating expenses for depreciation, it would not have the surplus reported on October 31, 1922. The Commission's engineering department has reviewed applicant's "Exhibit 4" and reports that applicant as of December 31, 1921, should have had in its reserve for accrued depreciation \$1,160,692.01 instead of \$616,010.97 as reported by applicant. It, therefore, appears that applicant, assuming its depreciation allowance during 1922 to have been correct, had on October 31, 1922 really a surplus of only \$385,069.29 instead of \$938,740.37. Applicant should transfer from its surplus to its reserve for accrued depreciation a sum sufficient to bring its reserve for accrued depreciation as of December 31, 1921, up to \$1,160,692.01. The reserve for accrued depreciation should be

built up by the transfer of the necessary amount from applicant's accumulated surplus rather than from future earnings. On the condition that the transfer is made, the Commission will permit applicant to issue \$375,000.00 of stock to reimburse its treasury and distribute such stock as a dividend.

I herewith submit the following form of Order:

O R D E R.

SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA having applied to the Railroad Commission for permission to issue \$750,000. of its common stock, a public hearing having been held and the Railroad Commission being of the opinion that the company should be permitted to issue \$375,000.00 of common stock, and that the money, property or labor to be procured or paid for by such issue is reasonably required by applicant;

IT IS HEREBY ORDERED, that SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA be, and it is hereby, authorized to issue \$375,000.00 of its common capital stock for the purpose of reimbursing its treasury on account of surplus earnings invested in property.

The authority herein granted is subject to further conditions as follows:-

- (1) - The authority herein granted will become effective upon the date of the transfer from applicant's surplus account to its reserve for accrued depreciation the amount indicated in the foregoing opinion and such authority will expire on May 1, 1923.
- (2) - The stock herein authorized shall be issued at par and after reimbursing applicant's treasury may be distributed by applicant, as permitted by law, to its stockholders as a stock dividend.

(3) - Applicant shall keep such record of the issue 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 in so far as applicable is made a part of this order.

IT IS HEREBY FURTHER ORDERED, that this application in so far as it relates to the issue of \$375,000.00 of stock be, and it is hereby, dismissed without prejudice.

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 30th day of December, 1922.

H. B. Brundage

Dwight Martin

J. D. Benedict

Commissioners