

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application
of ECONOMIC GAS COMPANY for an
order approving an issue of bonds
of said corporation of the face
value of \$930,000.00

Application No. 500.

Chickering and Gregory for applicant.
Lucius P. Green for certain consumers, protestants.
Herbert P. Goudge and Paul Overton for Los Angeles Gas
and Electric Corporation, protestant.

ESHLEMAN, Commissioner.

SUPPLEMENTAL OPINION.

This case was before the Commission and decided on July 10, 1913, wherein the Commission found that \$635,000 of a supposed ^{bond} issue of \$930,000 was illegally issued. Of the \$635,000 illegally issued but actually outstanding the Commission approved the issue of \$270,000, the money derived from the sale thereof to be applied to the liquidation of an indebtedness in the sum of \$233,792.05. The remaining \$365,000 of the \$930,000 supposed to have been issued was not approved by the Commission.

Prior to the effective date of the Public Utilities Act the entire capital stock of \$1,500,000 of this corporation had been issued and was outstanding. As was suggested in the opinion heretofore rendered, the purchasers of the bonds illegally issued would have some remedy against the corporation for the money paid. In order to comply with the conditions imposed by the Commission and to satisfy its creditors, the company submits a proposed adjustment which we will now consider.

When the company appeared before the Commission originally it was capitalized as follows:

Stock authorized.....	\$1,500,000.
Stock outstanding.....	1,500,000.
Bonds authorized.....	1,500,000.
Bonds in the hands of purchasers, legally and illegally issued.....	930,000.

The Commission found a value of the property of this company of approximately \$800,000 to be justified.

The company now proposed to recast its stock as follows:

First preferred stock, 6% cumulative, authorized.....	\$ 500,000.
Second preferred stock, 6% cumulative, authorized.....	150,000.
Common stock, authorized.....	850,000.

The company proposes to recast its bond issue as follows:

To leave outstanding.....	\$ 303,000.
To place with special committee of trustees	262,000.
To place with Mercantile Trust Company.....	365,000.
In treasury.....	570,000.

In effect the company proposes to cancel \$591,000 of bonds and to issue in exchange therefor \$377,500 of first preferred stock and \$150,000 of second preferred stock. It proposes also to reduce its common stock outstanding from \$1,500,000 to \$527,500. The company proposes also to cancel \$36,000 of bonds and re-deed to Mr. Lowe the piece of land for which these \$36,000 of bonds were originally given him. The effect would be to reduce the outstanding bonds by \$627,000. The company will then be in this general position:

<u>Stock</u>	<u>Authorized</u>	<u>Issued</u>	<u>With Trustee</u>
First preferred, 6%	\$ 500,000	\$ 377,500	\$ 122,500
Second preferred, 6%	150,000	150,000	---
Common Stock	850,000	527,000	322,500
Bonds outstanding.....			\$ 303,000

The bonds with trustees' Committee to be sold for benefit of company and used for additions and betterments.....	\$ 262,000.
Held by Mercantile Trust Company to be issued only upon authority of the Railroad Commission.....	365,000
Unissued and subject to Commission's jurisdiction...	570,000

This improves the company's position to a basis that is extremely conservative and brings about a very healthy financial condition.

The plan of reorganization requires authority from the Commission for the following:

1. To issue \$377,500 of first preferred stock.
2. To place \$122,500 of first preferred stock with the trustee.
3. To issue \$150,000 of second preferred stock.

I believe this can be readily granted for the reason that it means practically an issue of only \$527,000 par value of stock for the surrender of \$591,000 face value of bonds.

I do not believe the Commission is called upon to take any action with reference to the \$850,000 common stock. This company already has outstanding \$1,500,000 in common stock over which this Commission has no jurisdiction. It has withdrawn \$650,000 of this stock and substituted for it bonds and preferred stock heretofore referred to, as to which substitution this Commission's authority is required, but as to the \$850,000 of common stock left outstanding no order of this Commission is necessary.

I believe that in any order which is issued the stock placed with the trustees should be so placed only on the condition that the company and the trustees enter into an agreement with themselves and with the Commission not to issue any stock without the approval of the Commission.

I recommend also that as to the \$262,000 of bonds to be placed with the trustees that a stipulation be filed that these bonds will be sold only for money needed for additions and better-

ments to the company's property, and that they should be sold only when the additions and betterments and the cost thereof are approved by the Commission. While it will not be necessary under the circumstances of this case and by reason of the substitution herein provided for, for this company to secure the permission of this Commission to issue the \$262,000 of bonds and it should be permitted to issue the same at its option, still I believe that the proceeds of this issue should, as I have suggested, be used for additions and betterments at a cost to be approved by the Commission. The \$365,000 of bonds with the Mercantile Trust Company and the \$570,000 of unissued bonds will, of course, be under the Commission's jurisdiction.

I deem it proper before submitting an order in this case to make certain observations with reference to this company. Heretofore I very severely criticized this company with reference to some of its transactions. The criticisms were not intended to be directed toward the purchasers of the bonds but rather toward the directors of the company. Since the original opinion and order were entered this company has conducted itself in such a way as to commend itself to this Commission, and I believe has very much improved its financial condition and that the Commission should be no slower to praise the good spirit displayed by the officers of this company since the decision than it was to criticize actions that were considered improper heretofore.

I recommend the following order:

O R D E R .

Heretofore a hearing having been held and an opinion submitted and order rendered in the above entitled matter, to which reference is made for particulars, and the applicant having presented a plan of re-organization designed substantially to improve the condition of this utility and to remove the objections urged by the Commission to the financial condition of the applicant at

the time of the former hearing; and

IT APPEARING that such reorganization and re-arrangement will be to the substantial benefit of this corporation and will work no injury to the public,

IT IS HEREBY ORDERED that the applicant be authorized

1. To issue \$377,500 of first preferred stock and to deliver the same to the following stockholders in the amounts set opposite their respective names:

D. O. Druffel	791-2/3	shares of the par value of \$	79,166.66;
J. C. Coleman	150	" " " " " "	15,000.00;
S. W. Coleman	233-1/3	" " " " " "	23,333.33;
Hoteling Estate Co.	1000	" " " " " "	100,000.00;
F. Reis, Jr.	250	" " " " " "	25,000.00;
W. F. Detert	250	" " " " " "	25,000.00;
J. D. Grant	500	" " " " " "	50,000.00;
W. E. Chickering	58-1/3	" " " " " "	5,833.33;
Eugene De Coulon	25	" " " " " "	2,500.00;
Geo. T. Marye, Jr.	58-1/3	" " " " " "	5,833.33;
E. F. Oswald	8-1/3	" " " " " "	833.33;
L. P. Lowe	450	" " " " " "	45,000.00.

2. To issue \$122,500 par value of its first preferred stock and to place the same with trustees, to be thereafter sold by said company but only upon the application to and the approval by this Commission.

3. To issue \$150,000 par value of second preferred stock to L. P. Lowe.

4. To issue \$262,000 of its 6% bonds and place the same in the hands of the trustees named in the application, namely, L. P. Lowe, S. Waldo Coleman and C. W. Conlisk, the same to be hereafter sold only for money needed for additions and betterments to the company's property and only when the additions and betterments and the cost thereof are approved by this Commission.

5. To issue \$365,000 of its 6% bonds, placed with the Mercantile Trust Company, as trustee, only as directed by the directors of the company under the authority and the terms hereafter

prescribed by this Commission.

6. The applicant shall file a statement showing the compliance with the provisions of this order so far as present compliance is required. As to the use of the proceeds from the sale of stocks and bonds herein permitted to be placed in the hands of the trustees the necessary form of accounts will be prescribed in a subsequent order when such stocks and bonds are sold.

The foregoing supplemental opinion and order are hereby approved and ordered filed as the supplemental opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 30th day of January, 1914.

John M. Callahan
W. L. Loveland
Edwin O. Edgerton

Commissioners.