

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

ORIGINAL

App. No. 1198.

In the Matter of the Application)
of SOUTHERN COUNTIES GAS COMPANY)
OF CALIFORNIA for Authority to)
Issue Notes.)

Decision No. 1675

Wilson & Wilson, for Applicant.

LOVELAND, Commissioner:

OPINION

In this application SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA asks for authority to issue its three-year six per cent promissory notes of the face value of \$240,500.

Applicant has an authorized capital stock of the par value of \$1,000,000, divided into 10,000 shares of the par value of \$100 each. One-half of this stock is preferred and the remaining one-half common. Applicant has issued preferred stock of the par value of \$340,000 and all of its common stock, so that there is outstanding stock of the par value of \$840,000.

Applicant has an authorized bond issue of 30-year six per cent gold bonds of the par value of one million dollars of which bonds at the par value of \$579,000 are outstanding.

Applicant has outstanding its promissory notes of the face value of \$123,661.85, which notes are set forth in a statement attached to the application in this proceeding and marked "Exhibit A". Applicant also has a

further indebtedness of \$38,277.20 represented by open book accounts which are set forth in a statement attached to this application and marked "Exhibit B." Applicant's total indebtedness, other than the outstanding bonds, is represented by these notes and book accounts which, together, amount to \$161,939.05.

H.M.
Negotiations are now under way between applicant and eastern capitalists whereby applicant expects to procure the sum of ~~\$16,000,000.~~ ^{1,600,000-} This sum will be represented by notes or bonds secured by a mortgage upon all the properties of the applicant. The present application is filed as a preliminary step toward the consummation of these negotiations.

In the present application Southern Counties Gas Company of California asks permission to issue its three year 6 per cent promissory notes of the face value of \$240,500.00. It is proposed that the proceeds derived from the issue of these notes will be used for the following purposes:

1. \$123,661.85 to refund the notes of applicant tabulated in "Exhibit A" attached to the application;
2. \$ 29,850.10 to pay certain of the book accounts tabulated in "Exhibit B" attached to the application;
3. \$ 26,979.55 to reimburse the treasury for capital expenditures made from income during the past three years; *H.M.*
4. \$ 43,000.00 for extensions and betterments as needed.
\$223,491.50

I shall discuss each of these purposes separately. Considering first the item of \$123,661.85 for the payment of outstanding notes, the evidence shows that the money derived from these notes was spent in the construction of applicant's system. Applicant should be allowed to refund these notes, and I so recommend.

It is requested that the sum of \$29,850.10 be allowed for the payment of certain of the open book accounts tabulat-

ed in "Exhibit B", attached to the application. The book accounts set forth in that exhibit aggregate \$38,277.20. \$8,427.10 of these accounts, however, represent moneys which have been expended in the purchase of gas stoves and other gas appliances which applicant has sold in the development of its business. These gas appliance accounts should properly be paid from income. The sums so expended cannot, in my opinion, properly be capitalized. The accounts represented in "Exhibit B" other than the gas appliance accounts are, in my opinion, properly chargeable as capital expenses. It is these accounts which applicant desires to refund with the notes herein requested, and I believe that they should be allowed.

\$26,979.55 is asked to reimburse applicant's treasury for moneys spent from income during the past three years. The evidence in this proceeding shows that since applicant originally purchased this system about three years ago this sum of money has been taken from income from time to time and expended in extending and developing the system and increasing its facilities. As this sum of money was expended from income for purposes properly chargeable to capital account, applicant is entitled to issue its notes with the consent of the Commission to reimburse its treasury for the money so expended. \$43,000 is desired to be expended in extensions, service connections and betterments as occasion therefor arises. It appears that applicant has very recently begun to serve natural gas in the city of Orange and in other communities served by it in Southern California. Applicant proposes to develop its natural gas supply and serve natural gas throughout the entire system. The heating capacity of natural gas in this territory is about twice that of artificial gas, and also can be supplied at considerably less

expense than artificial gas. As the rate for natural gas is less, applicant must necessarily increase the number of its consumers in order to have its income undiminished. Applicant accordingly proposes to develop and expand its business as rapidly as possible. The sum of \$43,000 is accordingly requested for the purposes of meeting the expenses needed for extensions and betterments as occasion therefor arises.

I believe that Southern Counties Gas Company of California, if properly financed, has a great future in Southern California. Such was the testimony of William A. Baehr, who was sent out from Chicago by the eastern capitalists with whom applicant is negotiating, to inspect the property of this Company. From the report he has made and from the knowledge which the Commission has of the possibilities for the development and sale of natural gas in the communities served by applicant, I feel that the Commission should give every assistance possible to aid applicant in the present scheme of financial reorganization. I am of the opinion that applicant should be permitted to issue the notes herein requested for the purposes specified. The various items for which applicant desires to issue notes amount to \$223,491.50. If applicant can dispose of its notes at 93, this sum can be realized and I recommend that the application be granted upon the condition that the notes be issued for not less than 93% of their face value.

I submit herewith the following form of order:

O R D E R.

SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA having applied to this Commission for permission to issue its promissory notes of the face value of \$240,500 and a public hearing having

been held upon said application, and the Commission finding that none of the purposes for which the proceeds derived from said notes are to be used are in whole or in part chargeable to operating expenses or to income and that the application should be granted,--

IT IS HEREBY ORDERED that SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA be, and it is hereby authorized to issue its promissory notes of the face value of \$240,500 upon the following conditions, and not otherwise, to-wit:

1. Said notes shall be issued for a term not to exceed three (3) years and at a rate of interest not to exceed six per cent (6%) per annum.

2. Said notes shall be issued so as to net applicant not less than ninety-three per cent (93%) of the face value thereof.

3. The proceeds obtained from said notes shall be used for the following purposes only:

(a) \$123,661.85 for the payment of the notes of applicant tabulated in "Exhibit A" attached to the application;

(b) \$ 29,850.10 for the payment of that portion of the open book accounts of applicant tabulated in "Exhibit B" attached to the application; which do not represent moneys owing for the purchase of gas stoves or other gas appliances;

(c) \$ 26,979.55 to reimburse applicant's treasury for moneys expended from income during the past three years for new construction, additions and betterments to applicant's system;

(d) \$43,000 to pay for extensions to mains, installation of service connections, betterments to applicant's system and improvement in the facilities thereof as occasion therefor may arise.

\$223,491.50

4. If applicant should desire to execute a mortgage or deed of trust to secure any or all of the notes herein authorized to be issued such mortgage or deed of trust shall not be executed until a form thereof has been submitted to the Commission and the approval of the Commission thereto received in the form of a supplemental order.

5. Applicant shall keep true, accurate and separate account of the notes issued in accordance with this order, and of the manner in which the proceeds derived therefrom are applied, and on or before the 25th day of each month shall make a verified report to the Commission, stating the number of notes issued during the preceding month, the amount derived therefrom and the manner in which the proceeds have been applied, all in accordance with this Commission's General Order No. 24, which, in so far as applicable, is made a part of this Order.

6. The authority herein granted applicant to issue notes shall apply only to such notes as are issued on or before December 31, 1914.

7. This order shall not become effective until applicant has paid the fee provided by Section 57 of the Public Utilities Act.

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 18th day of July, 1914.

Railroad Commission State of California

Fee \$ 247.00
JUL 22 1914
BY H. G. MacArthur
Assistant Secretary.

John M. Eschelman
H. S. Leland
Alex. Gordon
Max Thilen
Edmund C. Edgerton
Commissioners.