

Decision No. _____

ORIGINAL

Decision No. 2351

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
Citrus Belt Gas Company to buy a)
system of gas plants and to issue)
stock, bonds and notes; and of)
P. J. Dubbell to sell a system of gas)
plants.)

Application No. 359.

S. W. McNabb of Curtis & McNabb for applicants;
A. Gregory for Home Gas and Electric Company of
Redlands.

GORDON, Commissioner.

O P I N I O N

The matters presented in this application were passed upon for the most part in the decision of this Commission on April 28, 1913, (Decision No. 615). In the order issued upon this application at that time, Citrus Belt Gas Company was authorized to assume mortgage indebtedness of the sum of \$351,200; to issue notes of a face value not to exceed \$25,000, and to issue 2000 shares of capital stock of the par value of \$100.00 per share, or \$200,000 total par value, - the securities therein authorized amounting to the total face value of \$576,200.

The effective date of the original order in this matter was set at January 1, 1914, and an extension was subsequently granted to June 30, 1914. The applicant has at subsequent times been granted further hearings in this matter and additional evidence was presented at a hearing held at San Bernardino August 12, 1914. At that time, the applicant asked for further time in which to submit additional data. That request was granted and another hear-

ing was held in San Bernardino on January 15, 1915. All matters relating to this application have been very thoroughly investigated by this Commission.

The applicant now requests that it be granted authority to assume the mortgage indebtedness heretofore referred to in the sum of \$351,200, which now amounts to \$350,200, and that it be granted authority to issue in addition income bonds, or similar evidences of indebtedness to an amount of \$362,335.89.

At the same time, the applicant asks to withdraw its original request in this matter, which was for authority to issue stock, bonds and notes aggregating in all \$1,087,596.54.

As this Commission has heretofore authorized the applicant to assume mortgage indebtedness in the sum of \$351,200, reference is hereby made to the order of this Commission of April 28, 1913, (Decision No. 615). We may, therefore, pass to a consideration of the further petition of the applicant that it be authorized to issue \$362,335.89 in income bonds or other evidence of indebtedness.

The gas plants herein referred to, comprising gas properties in Redlands, Corona, Colton and San Bernardino, were formerly owned by San Bernardino Valley Gas Company, which passed into bankruptcy. These properties are now held by P. J. Dubbell as trustee for creditors of the San Bernardino Valley Gas Company. The claims of the unsecured creditors now amount to \$362,335.89, and it is in satisfaction of these claims that it is proposed to issue the income bonds or other evidences of indebtedness. Many of these claims are held by banking institutions, which did not desire to avail themselves of the order heretofore made, allowing the satisfaction of these claims with an issue of stock. The particular request at this time is for evidences of indebtedness, which these banks may carry until such time as the properties held are sold, or some other disposition made of the matter.

It is further proposed at this time to transfer these properties from Mr. Dubbell to a new corporation, known as Citrus

Belt Gas Company; and it is also proposed that Citrus Belt Gas Company should issue five shares of stock to trustees, who should act for the creditors.

Various appraisals of the physical properties of these gas plants have been submitted to the Commission. Mr. Z. T. Bell, engineer for the applicant, submitted an estimate of the depreciated reproduction cost of these properties in the sum of \$530,270.15, to which were added current assets and securities in the treasury, bringing the total to approximately \$622,000. This appraisal was submitted in August, 1914, and at that time current liabilities reduced the figure to approximately \$610,000. At that time, Mr. G. R. Kenny, of the gas and electric engineering department of this Commission, estimating reproduction cost of these properties at \$584,267, and their depreciated reproduction cost at \$471,666. If the other items added by Mr. Bell, were added to Mr. Kenny's depreciated reproduction cost, the result would be the figure of \$552,000, against Mr. Bell's figure of \$610,000.

The report of the applicant for the calendar year 1914, shows current assets amounting to approximately \$73,000 and current liabilities of approximately \$11,000, making the net current assets approximately \$62,000. With Mr. Bell's appraisal of August, 1914, as a basis, this would bring the total of all assets to approximately \$595,000. Against this would be Mr. Kenny's figure of \$537,000. These figures assume that the current assets and securities, including the notes in payment for the Lytle Creek securities - or the Lytle Creek securities themselves - would be retained as assets.

The Commission has heretofore gone into great detail with regard to these appraisals in so far as they pertain to the Corona and Redlands properties. Findings of value therein were made in connection with rate cases.

Some additional evidence bearing upon the value of these properties was submitted at a hearing on March 15th of this year, but I find nothing to change in any substantial degree the figures heretofore mentioned.

which apply
 In the annual report submitted to this Commission for the calendar year 1914, the applicants submitted the following statement of assets and liabilities as of December 31, 1914:

ASSETS:

Total Fixed Capital,	\$651,030.37
Cash,	21,031.28
Total Accounts Receivable,	12,900.95
Total Investments,	39,212.00
Materials and Supplies	10,763.84
Total Prepaid Expenses	181.59
Corporate Deficit	<u>108,528.06</u>
TOTAL ASSETS	\$643,648.09

LIABILITIES:

Capital Stock,	\$ 500.00
Funded Debt,	350,200.00
Creditors San Bernardino Valley Gas Company,	362,335.89
Total Accounts Payable	10,826.42
Interest Accrued,	1,654.17
Reserve for Accrued Depreciation	118,074.99
Reserve for Amortization of Intangible Capital	<u>56.62</u>
TOTAL LIABILITIES	\$843,648.09

The applicants submitted the following income account for the calendar year 1914:

INCOME:

Operating Revenue,	\$111,230.69
Operating Expenses	<u>88,365.64</u>
Net Operating Revenue,	\$ 22,865.05
Interest Revenues on Funded Debt Owned,	900.00
Miscellaneous Interest Revenues,	<u>953.77</u>
Total Interest and Dividend Revenues	\$ 1,853.77
Miscellaneous Non-Operating Revenue	<u>3,055.29</u>
GROSS CORPORATE INCOME,	\$ 27,774.11

DEDUCTIONS:

Uncollectible Bills,	\$ 1,300.87
Interest Accrued on Funded Debt,	<u>20,196.00</u>
Total Miscellaneous Deductions	\$ 21,496.87
BALANCE,	\$ 6,277.24

The so-called underlying bonds, which the Citrus Belt Gas Company proposes to assume, consist of the following:-

Bonds of Home Gas and Lighting Co. of San Bernardino, provided for in deed of trust to W. H. Hooper, dated March 30, 1906,	\$ 40,000.00
Bonds of Home Gas and Electric Company of Redlands, said bonds being provided for in a trust deed made by Home Gas and Electric Co. of Redlands to Title Insurance and Trust Company of Los Angeles, dated July 1, 1906, . . .	113,700.00
Bonds of Redlands Gas Company, said bonds being provided for in a trust deed to Union Trust Company of San Francisco,	50,000.00
Bonds of Redlands Gas Company, said bonds being provided for in a trust deed to Union Trust Company of San Francisco, dated May 1, 1903, . . .	48,500.00
Bonds of Colton Gas Company, said bonds being provided for in a trust deed to Los Angeles Trust and Savings Bank,	<u>15,000.00</u>
TOTAL	\$267,200.00

In addition, Citrus Belt Gas Company proposes to assume a further amount of bonds of Home Gas and Electric Company of Redlands in the sum of \$83,000.00. In the previous order in the application herein, this amount was referred to as \$84,000.00, but it has since been reduced to \$83,000.00.

An agreement has been reached in behalf of the interests concerned by which Citrus Belt Gas Company will assume these additional \$83,000.00 of bonds and Home Gas and Electric Company of Redlands will cancel its claim against these gas properties amounting to \$112,946.00.

The provision is made for this assumption of the payment of principal and interest of these \$84,000.00 of bonds under the terms of an agreement dated October 15, 1914, copy of which has been filed in connection with the application herein. Under the terms of this agreement, Citrus Belt Gas Company guarantees the payment of the principal and interest of the bonds of Home Gas and Electric Company of Redlands in the amount of \$200,000. These bonds consist of the \$113,700 and \$83,000 of bonds heretofore referred to, one bond which has been retired, and \$2,300 of bonds which pass into

the treasury of Citrus Belt Gas Company. Citrus Belt Gas Company also agrees that these \$200,000 of bonds of Home Gas and Electric Company of Redlands shall be further secured by a lien against all the properties to be held by Citrus Belt Gas Company, subject, however, to the other bonded indebtedness.

This contract will in effect provide for the assumption by Citrus Belt Gas Company of bonds as previously authorized by this Commission in its Decision No. 615. The effect will be the assumption by Citrus Belt Gas Company of a total outstanding bonded indebtedness amounting to \$350,200.

It will be necessary in order to carry out this agreement, that the \$200,000 of bonds of Home Gas and Electric Company of Redlands be secured by a new indenture to be executed by Citrus Belt Gas Company.

There remains for determination, therefore, the amount and nature of the securities which Citrus Belt Gas Company shall be authorized to issue in addition to its assumption of a bonded indebtedness, as heretofore noted, in the sum of \$350,200.

From the evidence now before this Commission, it would appear that the value of the gas properties under consideration herein, together with the net current assets and securities owned, including the notes for the Lytle Creek securities, or the securities themselves, is approximately \$550,000. I do not offer this as a final finding of value, but I regard it as sufficiently definite for the purposes of this case. It may be that a detailed consideration in connection with further hearings will show results somewhat different from this figure, but I am convinced that this is an approximation sufficient as a basis to determine the issues here presented. In placing the figure at \$550,000, I have in mind, of course, the retention of the current assets and securities by Citrus Belt Gas Company. Should the securities be sold, the findings herein contemplate that the proceeds from such sale should be used for

the corporate purposes of Citrus Belt Gas Company and not disbursed. If any disbursement of these assets were contemplated, it would, of course, be necessary to reduce the figure used as a basis for the issue of securities.

I am frank to say that in an ordinary determination of this matter, for the equity of \$200,000 over and above the bonds to be assumed, I would recommend that Citrus Belt Gas Company be authorized to issue stock and not an evidence of indebtedness. I would willingly recommend that Citrus Belt Gas Company should be authorized to issue somewhere between \$200,000 and \$250,000 of stock. An authorization of such an amount of stock would contemplate its issue on a basis ranging from approximately \$80.00 per share to \$100.00 per share.

However, the request is made, and insistently repeated, that the banks among the unsecured creditors could not avail themselves of an issue of stock. It is their desire that evidences of indebtedness may be issued to them, and a willingness has been expressed that these evidences of indebtedness be impounded or placed in escrow in such way that they could not be placed on the market or distributed to the public. It is stated to be the intention of these unsecured creditors to hold such paper as may be issued to them merely until such time as they can transfer their interest in the equity of these gas properties. It is not their purpose to engage in the gas business. It is their intention to realize what they can on this equity. They have represented, however, that they should be allowed a reasonable time in which to find a purchaser for this equity and they desire meanwhile to be safeguarded by their retention of evidences of indebtedness representing that equity. As a matter of practice, I would not recommend that this be done. However, in this particular instance, I believe that such evidences of indebtedness may be issued without injury to any one if proper conditions be imposed that will require within a reasonable period the conversion of these

evidences of indebtedness into certificates of stock ownership. In this way, these unsecured creditors, including the banking institutions, could hold this paper until the transfer of the properties could be effected, when the purchasers could take stock certificates in lieu of the evidences of indebtedness. I believe such a reasonable period to be not to exceed three years. Accordingly, I recommend the following form of order.

O R D E R.

Citrus Belt Gas Company having applied to this Commission for authority to buy a system of gas plants and to issue stock, bonds and notes; and P.J. Dubbell having applied to this Commission for authority to sell a system of gas plants; and Citrus Belt Gas Company having applied to this Commission for authority to assume a bonded indebtedness in the sum of \$350,200, and to issue income bonds or similar evidences of indebtedness to an amount aggregating \$362,335.89, and a hearing having been held and it appearing that the public interests will be served by the sale of the gas properties referred to; and it appearing further that the purposes for which Citrus Belt Gas Company is hereinafter authorized to issue stock, bonds and notes, are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that P.J. Dubbell be and he is hereby authorized to sell to Citrus Belt Gas Company those gas plants now held in his name, comprising:

Two gas plants in Redlands,
One gas plant in San Bernardino,
One gas plant in Corona,
One gas plant in Colton,

together with distributing systems, real estate and other appurtenances.

IT IS FURTHER ORDERED that P.J. Dubbell be and he is hereby authorized to transfer to Citrus Belt Gas Company, and Citrus Belt

Gas Company is hereby authorized to acquire stock, bonds, notes and other securities, accounts receivable and other assets now held by P.-J. Dubbell as trustee for the so-called creditors of the San Bernardino Valley Gas Company.

IT IS FURTHER ORDERED that Citrus Belt Gas Company be granted authority and it is hereby granted authority to assume mortgaged indebtedness as follows:-

Bonds of Home Gas and Lighting Co. of San Bernardino, said bonds being secured by deed of trust to W.H. Hooper, dated March 30, 1906,	\$40,000.00
Bonds of Home Gas and Electric Company of Redlands, said bonds being secured by a trust deed made by Home Gas and Electric Company of Redlands to Title Insurance and Trust Company of Los Angeles, dated July 1, 1906,	196,700.00
Bonds of Redlands Gas Company, said bonds being secured by a trust deed to Union Trust Company of San Francisco,	50,000.00
Bonds of Redlands Gas Company, said bonds being secured by a trust deed to Union Trust Company of San Francisco, dated May 1, 1903,	48,500.00
Bonds of Colton Gas Company, said bonds being secured by a trust deed to Los Angeles Trust and Savings Bank,	<u>15,000.00</u>
TOTAL,	\$350,200.00;

IT IS FURTHER ORDERED that Citrus Belt Gas Company be granted authority and it is hereby granted authority to issue 2500 shares of stock of the par value of \$100.00 per share;

IT IS FURTHER ORDERED that Citrus Belt Gas Company be granted authority and it is hereby granted authority to execute a supplemental indenture for the purpose of extending the lien of the bonds of Home Gas and Electric Company of Redlands of a total amount not to exceed \$200,000 to cover all the properties herein to be acquired by Citrus Belt Gas Company, subject, however, to such mortgage indebtedness as may be outstanding against these properties.

The authority herein granted is granted upon the following conditions and not otherwise:

(1). Citrus Belt Gas Company shall assume the mortgage indebtedness herein referred to and shall issue the stock herein authorized only after it shall have received from P.J. Dubbell a good and sufficient deed covering all of the properties to be transferred, and after said deed of transfer shall have been approved by this Commission in a supplemental order.

(2). The stock herein authorized to be issued by Citrus Belt Gas Company shall be distributed pro rata to the so-called claimants or creditors against these gas properties in accordance with a finding which may hereafter be made by this Commission in a supplemental order.

IT IS FURTHER ORDERED that the authority herein granted to Citrus Belt Gas Company to execute a supplemental indenture to further secure the bonds of Home Gas and Electric Company of Redlands shall be subject to the approval by this Commission of such supplemental indenture.

IT IS FURTHER ORDERED that if Citrus Belt Gas Company should not elect to issue the stock herein authorized to be issued, it may in lieu thereof issue certificates of indebtedness of the face value of \$200,000, but only on condition that such certificates of indebtedness shall bear no fixed rate of interest, but that such rate shall not be to exceed five per cent per annum and variable at the option of the company; and on the further condition that these notes shall be distributed pro rata among the holders of the so-called claims against these gas properties amounting to \$362,335.89; and on the further condition that these certificates of indebtedness shall carry a condition under the terms of which they shall be converted into stock before January 1, 1918 on the basis of 1-1/4 shares of stock for every \$100.00 certificate of indebtedness; and on the further condition that the recipients of these certificates of indebtedness shall enter into an agreement to pool the same or place them in escrow.

IT IS FURTHER ORDERED that if Citrus Belt Gas Company shall not issue the stock herein authorized to be issued, but shall elect to issue the certificates of indebtedness herein authorized, it is hereby authorized to issue five shares of stock as follows:-

E.S. Moulton, 1 share,
E.D. Roberts, 1 share,
F.P. Morrison, 1 share,
A.M. Ham, 1 share,
Z.T. Bell, 1 share.

on the condition, however, that a trust agreement shall be executed which shall show that said --

E.S. Moulton,
E.D. Roberts,
F.P. Morrison,
A.M. Ham,
Z.T. Bell,

hold said shares of stock for the so-called creditors;

IT IS FURTHER ORDERED that Citrus Belt Gas Company shall notify this Commission on or before June 30, 1915, whether it proposes to issue the stock herein authorized or the certificates of indebtedness.

The authorization herein given shall apply to such transfer of property as shall have been made, or to such stock, bonds, notes or other evidences of indebtedness as shall have been issued, on or before December 31, 1915.

The authorization herein granted is granted upon the payment by the applicant of the fee prescribed in the Public Utilities Act.

The authority herein granted shall be exercised only after this Commission shall have issued a supplemental order stating that Citrus Belt Gas Company has complied with the requirements herein set out.

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 *5th*
day of May, 1915.

Max Theiler
Alfred J. Tom
Edmund O. Edwards