

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

ORIGINAL

In the matter of the Application of
MIDWAY GAS COMPANY
for an order authorizing the issue
by it of bonds, the execution and
delivery of a mortgage to secure the
same, the issue of stock and the
issue of notes payable at periods of more
than twelve months after the date
thereof.

Application
No. 1644.

THELEN, Commissioner.

FIRST SUPPLEMENTAL OPINION.

This Commission in this matter heretofore, on June 25, 1915 (Decision No. 2519) issued an order authorizing Midway Gas Company to issue \$2,172,000 of first and refunding mortgage 6 per cent bonds, \$88,305 of five year 6 per cent notes, and \$737,550 par value of preferred stock. The order specified the purposes for which these bonds, notes and this stock should be issued. A provision of this order, however, required that a supplementary showing should be made by the applicant and that the bonds, notes and stock should be issued only upon supplemental order from this Commission.

The applicant has now submitted additional evidence to this Commission in the form of exhibits, has filed its amended articles of incorporation and has submitted copies of its proposed mortgage to secure the issue of bonds and its proposed trust agreement under which it proposes to issue notes.

From the data submitted it is apparent that

the applicant will be under the necessity of modifying to some extent its original method of procedure, and this will entail certain changes in the order of this Commission as heretofore made.

A correction in the figures will call for an issue of \$683,000 of bonds to acquire the compressor plant and gathering lines, etc., of the Southern California Gas Company, instead of \$684,000 of bonds as originally authorized.

It appears also that instead of authorizing this issue of \$683,000 of bonds in one block to Southern California Gas Company, this item should be separated into two amounts consisting of \$660,000 of bonds and a second amount of \$23,000 of bonds.

The original order provided for the issue of \$23,000 of bonds to the Southern California Gas Company as payment to the Southern California Gas Company of the cost of obtaining its natural gas contracts, this item consisting very largely of legal costs.

It appears that the Southern California Gas Company is now indebted in the sum of \$20,833.57, representing the cost of these contracts, and for the acquisition of which Midway Gas Company was heretofore authorized to issue \$23,000 of bonds.

It is now proposed that Midway Gas Company assume and agree with the Southern California Gas Company to pay this amount of \$20,833.57 as part consideration for the transfer of the property of the Southern California Gas Company to it, and that the order authorize the Midway Gas Company to issue \$23,000 of its bonds for the purpose of discharging this obligation.

If the parties in interest desire such an arrangement I see no reason why this Commission's order may not be modified

so as to provide for an issue of \$660,000 of bonds to Southern California Gas Company in exchange for its properties and a further issue by Midway Gas Company of \$23,000 of bonds under the terms of an agreement by which Midway Gas Company shall obligate itself to discharge the indebtedness of \$20,833.57 and receive in return the assignment of the natural gas contracts.

It will be necessary also to make some change in the amount of preferred stock heretofore authorized to be issued by Midway Gas Company for the purpose of acquiring the property of the Northern Exploration Company. This amount of stock was originally placed at \$405,000 par value, the stock to be issued at 80 per cent of par to Northern Exploration Company in return for its properties and rights of an original cost of \$324,000. This original cost was determined by the applicant by taking the actual outlay of money by Northern Exploration Company and adding thereto interest at the rate of 6 per cent up to April 1, 1915.

I find, however, that Northern Exploration Company has heretofore had a return upon its investment and this interest item should, therefore, be eliminated. The effect would be to reduce the amount of preferred stock heretofore authorized to be issued to Northern Exploration Company from \$405,000 to \$359,800, or in round numbers to \$360,000.

It appears that under the contract between the Southern California Gas Company and the Southern Pacific Land Company and others described in the opinion of this Commission heretofore filed herein, the Southern California Gas Company is required to purchase from the Southern Pacific Land Company and other parties to the contract a minimum average amount of 10,000,000 cubic feet of gas per day, provided that the lands covered by the contract shall not become exhausted to such an extent as to make it impracticable to obtain that amount of gas from them by the exercise of reasonable diligence. The contract

provides that the gas company shall, at its own expense, develop the lands for the production of gas.

The Southern California Gas Company entered into a contract with the Northern Exploration Company to do the work of development for it not only in the fields covered by contract between the Southern Pacific Land Company and others and the Southern California Gas Company above mentioned, but also in any other fields the right to develop which might, during the period covered by this development contract, be acquired by Southern California Gas Company.

It was provided that the Southern California Gas Company should pay to the Northern Exploration Company as consideration for doing this work of development, as summarized by the applicant:

"(a) An amount equal to four cents per thousand cubic feet of all gas (excepting that described in (b) infra, and less five per cent for leakage) transmitted by the Southern Gas Company through the transmission lines of Midway Gas Company, operated by the Southern Gas Company under its lease, or any other transmission line, which might be operated by the Southern Gas Company, from any fields which might be developed by the Northern Exploration Company under this contract, and of all gas produced by the development work of Northern Exploration Company and sold by the Southern Company for consumption in the gas fields or elsewhere but not transmitted through the said pipe line.

"(b) A further amount equal to three-fourths of one cent per thousand cubic feet of all gas transmitted through any such pipe lines and used by the Southern Gas Company in any of its plants or sold by it to any electric light or artificial gas company and used by it in the manufacture of electric light or artificial gas for public distribution."

The wells described in the opinion of this Commission heretofore filed were drilled by the Northern Exploration Company under this contract. The effect of these contracts is to give the Southern California Gas Company the right to extract natural gas from the fields covered by the contract with the Southern Pacific Land Company and others, and from other land covered by contracts, but to subject the Southern California Gas Company to the continuing obligation to pay to the Northern Exploration Company the compensation provided for developing the gas as above set forth. It appears that the cost of this development work, as far as gas wells are concerned, to the Northern Exploration Company has been, up to June 30, 1915, according to the figures presented herein, \$287,836.08.

It appears further that Northern Exploration Company has received compensation under this contract and would, therefore, not be entitled to additional interest upon its investment.

It is now proposed that Southern California Gas Company transfer to the Midway Gas Company all its rights under its contracts with Southern Pacific Land Company and other companies whose lands it has contracted to develop for natural gas. It is proposed that an equitable settlement would provide for the release by Northern Exploration Company of all of its claims for compensation for drilling and developing gas wells under its contract with Southern California Gas Company, and it is proposed further to effect such release that Northern Exploration Company be compensated in preferred stock of Midway Gas Company, issued at 80 cents on the dollar, for the actual cost to it of drilling and developing the gas wells, together with the cost of such implements, materials and supplies as may be essential to this work of drilling and developing natural gas wells. This cost, as heretofore stated, is reported at \$287,836.08 and it is proposed that stock be issued for this amount of the par value of \$360,000.

It will be essential, in view of the changes and delays incident to the completion of the transaction herein involved, that the transfer of the properties of Northern Exploration Company and Southern California Gas Company to Midway Gas Company should be made effective as of June 30, 1915. This order will contemplate the transfer as of that time.

The copy of the first and refunding mortgage filed by this applicant provides for a sinking fund to be payable after certain deductions from the company's gross earnings, including a working capital for the purpose of maintaining an adequate supply of gas, but the amount of this working capital is further fixed at such sum as the board of directors of the Midway Gas Company "in its discretion" shall deem necessary.

I shall recommend the approval of this form of trust deed, but only on condition that it shall be so amended that the amount of working capital to be deducted before the sinking fund shall accrue shall be fixed by the amount necessary to maintain an adequate supply of natural gas without reservation as to the discretion of the board of directors. This, of course, will require certain other changes to make the document consistent.

Nothing in this opinion is intended as an approval of any of the contracts entered into by Southern California Gas Company either with Northern Exploration Company or with companies owning natural gas lands for the development of those lands nor for the payment of compensation for the gas extracted from those lands. These are all matters to be passed upon in a rate inquiry and are not pertinent to this proceeding. Nor is there any intention in this opinion to pass upon the value of any of the properties of Southern California Gas Company, Northern Exploration Company or Midway Gas Company.

In determining the amount of stock, bonds or notes to be issued by Midway Gas Company in this matter, this Commission

has taken no account of the depreciation of these properties or any of them, nor has it taken any separate account of those portions of these properties which are used and useful in public utility business as distinguished from those which are not used and useful. There has been no endeavor either to eliminate undue or unreasonable cost or expense in connection with any of these properties under consideration.

As stated in the previous opinion in this matter, the Commission has chosen to take a broad view of this natural gas situation and has expressed a willingness to authorize stocks, bonds and notes in an amount which would enable the applicant to reorganize its affairs as long as such an amount did not appear inconsistent with the public interest. The ability to earn on the stocks, bonds and notes herein authorized is dependent upon so many elements of hazard and chance that there has been no endeavor herein to limit the stock, bonds and notes to a basis upon which the applicant might reasonably be expected to earn a return.

It will be necessary for the applicant after all the outstanding first mortgage bonds have been obtained, to cancel these bonds and to cancel also the mortgage against which they are issued.

It is proposed by the applicant to issue its first and refunding mortgage bonds with the June 1, 1915 coupon detached.

After consideration of all of the elements involved in this application, I recommend the following supplemental order:

FIRST SUPPLEMENTAL ORDER.

IT IS HEREBY ORDERED that the order heretofore issued by this Commission in the above entitled matter on June 25, 1915 (Decision No. 2519) be and the same is hereby ordered amended in the following particulars:

In lieu of the authority heretofore given the applicant to issue \$684,000 of first and refunding bonds as follows:

"(b) - \$684,000 face value of said bonds shall be issued at 90 per cent of face value for the purpose of acquiring the compressor plant and gathering lines of the Southern California Gas Company in the Midway Oil Field in Kern County as described in the opinion which precedes this order; and for the purpose of taking over the rights and obligations of Southern California Gas Company in the contracts heretofore entered into between Honolulu Consolidated Oil Company and Southern California Gas Company and Midway Gas Company, and the Southern Pacific Land Company, Kern Trading and Oil Company and Associated Oil Company and Southern California Gas Company and Midway Gas Company; and for the additional purpose of purchasing an automobile from Southern California Gas Company."

the applicant is hereby given authority to issue bonds as follows:

\$660,000 face value of said bonds shall be issued at 90 per cent of face value for the purpose of acquiring the compressor

plant and gathering lines of the Southern California Gas Company in the Midway Oil Fields in Kern County as described in the original opinion in this matter, dated June 25, 1915; and for the purpose of taking over the rights and obligations of Southern California Gas Company in the contracts heretofore entered into between Honolulu Consolidated Oil Company and Southern California Gas Company and Midway Gas Company, and Southern Pacific Land Company, Kern Trading and Oil Company and Associated Oil Company and Southern California Gas Company and Midway Gas Company; and for the additional purpose of purchasing an additional automobile from Southern California Gas Company.

\$25,000 face value of said bonds shall be issued at not less than 90 per cent of face value by Midway Gas Company for the purpose of discharging an obligation in the sum of \$20,833.57 owed by Southern California Gas Company, said bonds to be issued under an agreement with Southern California Gas Company under the terms of which the payment of said indebtedness of \$20,833.57 by Midway Gas Company shall constitute a part consideration for the transfer of the property of Southern California Gas Company to Midway Gas Company.

IT IS FURTHER ORDERED that in lieu of the authority heretofore granted to Midway Gas Company in this matter to issue

\$396,000 par value and \$9,000 par value of its preferred stock to Northern Exploration Company, the applicant be granted authority to issue 3,600 shares of its preferred stock of the par value of \$100 per share, or \$360,000 par value of its preferred stock to Northern Exploration Company for the purpose of acquiring the properties of Northern Exploration Company, consisting of certain gas wells, implements, etc., as specified in the original opinion of this Commission in this matter, dated June 25, 1915, and for the further purpose of obtaining the release by Northern Exploration Company of any claims against Southern California Gas Company or Midway Gas Company for compensation for natural gas subsequent to June 30, 1915, under such contracts as it may have with Southern California Gas Company providing for such compensation, as described in the foregoing opinion.

IT IS FURTHER ORDERED that Midway Gas Company be granted authority, and it is hereby granted authority, to execute a mortgage of its property substantially in the form of a copy of a mortgage and deed of trust filed with this Commission in this proceeding as Exhibit "E", entitled "First and Refunding Mortgage, Midway Gas Company to Mercantile Trust Company of San Francisco", providing for an issue of bonds dated December 1, 1914 and maturing December 1, 1929; on the condition that said form of mortgage and deed of trust be amended so that the amount applicable to sinking fund shall be determined in so far as a proper working capital is concerned, as indicated in the foregoing opinion, by eliminating the condition that the amount of such working capital shall be determined in the discretion of the board of directors of Midway Gas Company.

IT IS FURTHER ORDERED that the applicant be granted authority and it is hereby granted authority to execute a trust agreement to secure an issued of \$88,305 five year 6 per cent gold notes in the form of a copy of said agreement filed in connection with this application and marked Exhibit "D", entitled "Midway Gas Company and Mercantile Trust Company of San Francisco, Trustee, Trust Agreement Securing \$88,305 five year 6 per cent gold notes", said agreement being dated December 1, 1914. *0.5*

The authorization herein given for the execution of said first and refunding mortgage and said trust agreement is an approval for the purpose of this proceeding only and an approval only in so far as this Commission has authority to approve such a mortgage and such an agreement under the terms of the Public Utilities Act; and is not intended as an approval in the various legal requirements to which said mortgage and said trust agreement may be subject.

IT IS FURTHER ORDERED that the order heretofore made by this Commission in this matter (Decision No. 2519), to which reference has heretofore been made, be and the same is hereby amended by cancelling and annulling that portion of said order reading as follows:

"The preferred stock herein authorized to be issued shall not be issued until this Commission has issued a supplemental order approving the amended articles of incorporation of Midway Gas Company, describing the terms and conditions of said preferred stock."

IT IS FURTHER ORDERED that all of the provisions and terms of the order heretofore issued in this matter, dated

June 25, 1915, shall remain in full force and effect except where in conflict with the order herein.

The foregoing First Supplemental Opinion and Order are hereby approved and ordered filed as the First Supplemental Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 1st
day of ~~August~~ ^{Sept}, 1915.

Max Thelen
H. P. Ireland
Edwin O. Edgerton

Commissioners.