

BEFORE THE RAILROAD COMMISSION

OF THE
STATE OF CALIFORNIA.

ORIGINAL

In the Matter of the Application of
Southern Counties Gas Company of
California, for Authorization to
Issue Additional Bonds.

APPLICATION NO. 230.

APPEARANCES:

Wilson & Wilson, for Applicant.

O P I N I O N .

Loveland, Commissioner:

Applicant is a corporation organized and doing business under the laws of the State of California, date of incorporation, February 27, 1911, with principal place of business in Los Angeles, California. The following statement of facts which appear in the pleadings and which were developed by the testimony at the hearing are necessary to a proper consideration of this application.

Southern Counties Gas Company was formed by a consolidation of Southern California Edison Company, of Whittier; Southern California Edison Company, of Santa Ana; Orange County Gas Company, operating in Anaheim, Orange and Fullerton; and Home Gas Company of Fullerton. Applicant later acquired

Covina Valley Gas Company and since has added by extensions and improvements to its plant. It now operates gas plants and distributes and sells gas as follows: gas plant at Santa Ana which serves through its distributing system and high pressure lines the cities of Santa Ana, Orange, Anaheim and Fullerton; gas plant at Whittier which serves through its distributing system the city of Whittier; gas plant at Monrovia which serves through its distributing system and high pressure lines the cities of Monrovia, Sierra Madre, Arcadia, South Santa Anita and El Monte; gas plant at Covina which serves through its distributing system and high pressure lines the cities of Covina, Azusa and Glendora. Applicant also serves San Gabriel and sections of unincorporated territory contiguous to the above named municipalities.

Southern Counties Gas Company of California has an authorized issue of \$500,000 (5000 shares of the par value of \$100 per share) of common stock. All the common stock has been issued. There is also an authorized issue of \$500,000 (5000 shares of par value of \$100 per share) of six per cent preferred stock, cumulative after the fiscal year ending June 30th, 1915. \$340,000 of preferred stock has been issued, being 3,400 shares of preferred stock sold at \$85 per share, and the balance in the sum of \$160,000 (1,600 shares of the par value of \$100 per share) is held in escrow under an agreement with the Los Angeles Trust and Savings Bank, which provides for further issue of preferred stock for improvements, acquisitions of property and betterments when they shall have been approved in writing by J. E. Adams & Company, and when the net earnings applicable to dividends on preferred stock, including the net earnings applicable to dividends on preferred stock on property to be acquired for stock to be

issued for the acquisition of operating property, exclusive of operating, maintenance or depreciation charges, shall be for the twelve months next preceding each respective application for the certification of stock at least one and one-quarter times the dividend charges on all preferred stock outstanding against the property, together with that stock in each respective application sought to be certified and issued.

The common stock was disposed of by applicant as follows:

1400 shares to J. H. Adams & Company for underwriting services.

1250 shares to F. R. Bain, in connection with purchase of preferred stock.

1800 shares to C. S. S. Forney, for promotion services.

550 shares to purchasers of preferred stock.

Total 5000 shares.

It appears that no money was received from the sale of the common stock, and no consideration other than the services in promoting the company and floating the bonds. The common stock of J. H. Adams & Company and of C. S. S. Forney has since been purchased for cash by F. R. Bain.

Applicant has an authorized issue of 1,000,000 of 30-year six percent first mortgage bonds. These bonds are in denominations of \$500 each and are issuable under a mortgage and deed of trust dated April 1st, 1911, to Los Angeles Trust & Savings Bank. There have been issued under this mortgage bonds in the sum of \$557,000. Of these, bonds to the amount of \$2,500 have been cancelled, leaving bonds outstanding in the

sum of \$554,500. The remaining bonds in the sum of \$443,000 are issuable on the following terms as provided in the mortgage above referred to: "Section 6. Of the bonds authorized to be issued hereunder and to be secured hereby, bonds for the aggregate principal sum of four hundred and forty-three thousand (\$443,000) dollars, being bonds numbered one thousand one hundred fifteen (1115) to two thousand (2000), both inclusive, shall by the Trustee be certified and delivered to the Company to an amount in par value equal to seventy-five per cent (75%) of the money actually expended by the Company for improvements, acquisitions and betterments; but only when such improvements, acquisitions and betterments have been approved, in writing, by J. E. Adams and Company, and when the net earnings of the Company (including therein for the purpose of this section, the net earnings of properties to be acquired, in the event that bonds are certified for the purchase of revenue producing property) shall have been for twelve (12) months next preceding each respective application for certification of bonds at least one and one-half times the annual interest charges on all bonds secured hereby then outstanding, together with those bonds in each respective application sought to be certified and issued.

"Section 7. For the purpose of this Article, net earnings shall be understood to be the entire gross earnings of the Company (including therein, however, only the gross profit from merchandise sold in the ordinary course of business), less taxes, franchise or license fees, insurance, rentals and all proper and customary operating and maintenance charges." (See page 27 of mortgage on file with Commission.)

The applicant submits an estimate of the value of its properties as of August 31, 1912, in the sum of \$642,948.37

based upon an appraisal made by Bion J. Arnold, as of April 1st, 1911, with additions thereto since such appraisal was made. Applicant submits a statement of its earnings for the fiscal year ending June 30th, 1912, showing gross earnings in the amount of \$178,461.15, net earnings of \$48,590.20, and a net profit after deducting bond interest, interest on borrowed money and bond expenses in the sum of \$10,005.53. A subsequent statement of earnings submitted by applicant shows net earnings for the twelve months ending September 30th, 1912, of \$49,645.96.

Southern Counties Gas Company of California now applies to the Commission for authority to issue bonds in the sum of \$26,000 to refund certain notes upon which money was borrowed from banks and used for capital expenditures, the money borrowed being represented by notes due as follows:

National Bank of Orange, \$2500 due October 13, 1912.

First National Bank of Santa Ana, \$2500 due October 13, 1912.

National Bank of Fullerton, \$1000 due October 13, 1912;

National Bank of Monrovia, \$1000 due October 13, 1912.

First National Bank of Glendora, \$2500, due October 15, 1912.

National Bank of Sierra Madre, \$2500, due October 13, 1912.

National Bank of Fullerton, \$2000, due October 21, 1912.

Whittier National Bank, \$2500, due October 30, 1912.

National Bank of Orange, \$2500, due October 30, 1912.

Whittier National Bank, \$2500, due December 20th, 1912.

Whittier National Bank, \$2500, due December 20th, 1912.

Total, \$24,000.

Applicant has since reduced the amount of its indebtedness to the banks above mentioned to a total of \$21,592.55.

The money obtained on these notes, to refund which bonds are now sought, was spent for improvements and betterments appearing in certificate filed with the Commission, examined and certified to by the Auditing Department of the Commission.

Applicant seeks further for an issue of bonds which, sold at eighty-five, will cover projected expenditures for improvements in the sum of \$40,500. The amount of bonds necessary as figured by applicant would be \$47,500. The improvements which applicant desires to make from the moneys to be derived from the sale of such bonds are as follows:

"SANTA ANA GAS PLANT:

New generating set with piping.....	\$ 2,500.00
New direct connector engine and exhauster.....	650.00

WHITTIER GAS PLANT:

New generator and Wash-box.....	2,000.00
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COVINA GAS PLANT:

Rebuilding Generator to increase capacity.....	1,000.00
New direct connector Exhauster.....	650.00

MONROVIA GAS PLANT:

New generating set with all make pipes.....	3,000.00
" 100 H.P. Boiler, set.....	2,800.00
" direct connector Exhauster & engine.....	650.00
" direct connector blower and engine.....	550.00

ARABIAN DISTRIBUTING SYSTEM:

New 3" line to Fullerton 12,000'.....	3,600.00
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MONROVIA DISTRIBUTING SYSTEM:

Extension of 3" line to Michillinda 9000'.....	2,700.00
8000' 2" mains in Michillinda.....	1,600.00
Extension of 3" line to San Gabriel 19,000'.....	5,700.00
10,000' 2" mains in San Gabriel.....	2,000.00
Extension of 3" line to Duarte 7,000'.....	2,100.00
5,000' 1" mains to Duarte.....	600.00

Small extensions all over the system not included in	
	above.....\$ 6,800.00
Engineering and contingencies	<u>1,420.00</u>
	\$40,500.00 "

At the hearing in this case, applicant's attention was called to those sections of its mortgage which limit the amount of bonds it may issue to 75 per cent of the moneys actually expended for construction, improvements, etc., and the further limitation that additional bonds can be issued only when the net earnings of the company are one and one-half times the interest charges on the outstanding bonds plus the interest charges on the bonds proposed to be issued. Southern Counties Gas Company of California thereupon amended its application to accord with the terms of its mortgage and asked that the Commission authorize it to issue bonds to the amount of 75 per cent of the moneys expended, in the sum of \$21,592.32 and of the moneys to be expended in improvements, betterments, etc., in the sum of \$40,500 or \$46,569.24, such authorization to be made by the Commission upon receiving from applicant a verified statement that the conditions of the mortgage have been complied with. In other words, that the net earnings at the time such verified statement is made equal one and one-half times the interest on the present bonded indebtedness plus one and one-half times the interest on the further issue asked for.

By reference to the mortgage hereinbefore mentioned given by applicant to the Los Angeles Trust & Savings Bank, ~~max~~ ~~887~~ it will be seen that there are two limitations as to the issuance of further bonds which have been authorized, one being that bonds can be issued for but 75 per cent of the actual money expended in plant extension and betterment, and the other that the earnings of the company for the twelve months preceding the application for further bond issue must equal one and one-half

times the amount of the interest on the present bonded indebtedness, plus one and one-half times the interest on the proposed further bond issue. The net earnings of the company for the twelve months preceding the present application, were \$49,645.96. The interest on the present bonded indebtedness for the same period was \$35,240, and the interest on the proposed further bond issue for one year would be \$2,779.14, or a total interest of approximately, \$36,000. One and one-half times this amount would be \$54,000, or thereabouts, showing that the earnings of the company for the twelve months preceding the present application were about \$4,300 less than the earnings stipulated by the conditions in the mortgage.

A careful analysis of the past and present circumstances of applicant as disclosed by the testimony in the case, shows that the affairs of the company previous to the time the present management and control were inaugurated, were conducted in a very haphazard and careless manner, but that since the present management assumed control, such management has been characterized by good judgment and discretion with the result that the earnings of the company have been largely increased, and while the earnings for the year preceding the present application are not sufficient to justify the Trustee in authorizing the amount of bonds asked for in the application, or any further issue at present, it may well be assumed that that condition arises from the fact that the present management has had control for only about eight months and that had this application been deferred until the present management had been in control for one year, the company could doubtless easily have justified its application for the bond issue prayed for. However, the Commission is not inclined to approve of a bond issue in excess of what was voluntarily agreed upon by the parties hereto under the conditions of the

mortgage. Under the first condition as set forth in said mortgage governing the issue of further bonds, on the expenditure of \$21,592.52 applicant would be entitled to a bond issue of 75 per cent of that sum, or \$16,194.24. For the contemplated expense (a statement of which appears above) of \$40,500, applicant would be entitled to an issue in bonds of ~~\$50,125~~^{\$30,375}, or a total *HPM* of \$46,569.24; but the second condition found in the mortgage, namely, that the earnings of the company for the twelve months preceding the application must equal one and one-half times the interest on the present bonded indebtedness, plus one and one-half times the interest on the bonds asked for, would prevent the issuance of any bonds at the present time for the reason that the earnings of the company for the twelve months preceding the application were but \$49,645.96, while the earnings required by the mortgage stipulation are \$54,029.72.

We have gone very carefully into the affairs of the company as will be seen by reference to the transcript, and an examination of witnesses extending from the time the company was organized to the present moment, and such examination has satisfied us that the present management has greatly improved the condition of the company and that a continuation of such wise and careful management should make it possible for the company to be successful in its future operations. While the testimony shows that the common stock was originally issued as a bonus to the promoter and others, and given with the sale of preferred stock, it is also in evidence that Mr Bain, the present president and the largest stockholder of the company, has bought and paid cash for a considerable amount of said common stock for the purpose of eliminating undesirable conditions in

the ownership of such stock, and to place the company in a position where harmony and wise control and management can prevail.

I am therefore of the opinion that while under the conditions of the mortgage additional bonds cannot now be issued, while we believe that the conditions of the mortgage should be considered ~~unfavorably~~ by the Commission, we also believe that were it not for the conditions of said mortgage governing the further issue, the prayer of the applicant to issue bonds to the amount stated in the application, as amended, would unquestionably be granted. As an evidence of the improved condition of the applicant under the present management, it appears in the evidence that while former issues of the bonds of applicant were sold at eighty-five, the latest issue was sold at eighty-nine. In order therefore to place the applicant in a position to proceed at the earliest possible moment with the proposed extensions and betterments, and to refund the \$21,592.52 already expended in plant improvement and betterment, with as little formality as possible, I recommend, that applicant be authorized to issue bonds in the sum of not exceeding \$47,000, subject, however, to the stipulation and agreement contained in the mortgage. In other words, while applicant is not now entitled under the mortgage stipulation to any issue of bonds, in view of the fact that its earnings are rapidly increasing, it soon will be entitled, and the Trustee will approve of such issue, at which time if applicant will make a verified statement to the Commission that under the conditions of the mortgage it is entitled to issue further bonds, this Commission will, by a supplemental order, authorize such issue to the amount

applicant is entitled until the amount so verified and authorized to the Commission shall have reached the aforesaid sum of \$47,000, such issues to be subject to the conditions set forth in the order.

I therefore recommend the following order:

O R D E R .

WHEREAS, the Southern Counties Gas Company of California, a corporation organized and existing under the laws of California, for the purpose of serving the inhabitants of various counties, cities and towns in Southern California with gas for heat, light and domestic purposes, and for such other purposes as gas is used, has applied to the Commission for an authorization to issue additional bonds for the purpose of refunding such sums already expended and to be expended in plant extensions and betterments, and

WHEREAS, a hearing was duly held on the 10th day of October, 1912, and the affairs of said applicant closely and thoroughly gone into and considered, and it appearing that under ordinary circumstances and without any other limitation as to the further issue of bonds the Commission would authorize the issue prayed for, but that owing to conditions set forth in the mortgage executed by applicant to the Los Angeles Trust & Savings Bank, which mortgage contains the stipulations governing further issue of bonds (above set forth), the Commission will authorize the present issue of bonds only on terms expressed in the mortgage, but believes that applicant should be permitted to make a further issue of bonds in the sum total of \$47,000 when its condition as to earnings will comply with the mortgage stipulations,

NOW, THEREFORE, be it ordered that the Southern Counties

Gas Company of California is hereby authorized to furnish to the Railroad Commission of the State of California at any time that it is in position to do so a verified statement showing that its earnings are such as to entitle it to issue further bonds under and in compliance with the stipulations of the mortgage given to the Los Angeles Trust & Savings Bank, and that the Commission will, by supplemental order from time to time as such showing is made, authorize the issue by applicant of further bonds, the total amount to be issued under this opinion and order not to exceed the sum of \$47,000, and said bonds shall not be sold for less than eighty-five; that the moneys received from the sale of bonds so issued is to be expended only for the purposes set forth herein, to-wit: The refunding of amounts spent for plant extension and betterment in the past and future, it being made a condition in this order that reference is hereby had only to ^{bonds} ~~stock~~ issued on or before *H.M.* January 1st, 1913. That on the 15th day of each and every month following any such issue or issues of bonds, applicant will furnish to the Commission in writing a verified report of the disposition of the bonds so issued, comprehending the amount sold, price received therefor and the disposition of the moneys received from such sale.

The above opinion and order is hereby ordered filed and approved as the opinion and order of this Commission.

Dated at San Francisco, this 14th day of October, 1912.

John M. Calkins
W. H. ...
Max Thebe
Edwin O. Edgerton
Commissioner