

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of)	
SACRAMENTO GAS COMPANY, a corporation,)	
for permission to sell bonds of the)	Application No. 1907.
par value of \$400,000.00 and to execute)	
a mortgage of its properties.)	

Devlin & Devlin, by Robt. P. Devlin, for applicant.

BY THE COMMISSION.

O P I N I O N .

This is an application of the Sacramento Gas Company, hereinafter referred to as the Gas Company, for authority to create a bonded indebtedness of \$1,500,000.00 of first mortgage six per cent serial gold bonds, and to issue and sell \$400,000.00 of said bonds at not less than 92 $\frac{1}{2}$ % of their face value; the proceeds of such sale to be used in taking up certain bonds and notes now outstanding, paying interest on the same, reimbursing the company's treasury for moneys expended from income, and providing for future additions and betterments.

Applicant was incorporated under the laws of the State of California in December 1895 as the Sacramento Natural Gas Company. By court proceedings its name has since been changed to Sacramento Gas Company, for the reason that it now serves artificial as well as natural gas.

The Gas Company operates in the cities of Sacramento and Yodi, its principal place of business being located in the former city. It is a local corporation whose stock is owned principally

by residents of Sacramento and Stockton. Its properties consist of 67 miles of mains in Sacramento and 6 miles of mains in Lodi, together with buildings, eleven parcels of real estate, nine gas wells, plant and machinery, gas holders, meters, tools and miscellaneous equipment. A valuation of the Sacramento property as of April, 1915, made for the company by Mr. A. R. Kelley is as follows:

Estimated Cost	\$719,074.00
Estimated Reproduction Cost	885,129.00
Estimated Reproduction Cost - less Depreciation	687,644.00

Applicant has an authorized capitalization of 10,000 shares of common stock of the par value of \$50.00 per share, of which 6,582 shares are now issued and outstanding. Some of this stock was sold by the company at \$65.00 per share and none of it was sold or disposed of at less than par. There is no preferred stock.

Applicant has no mortgages or incumbrances upon its property with the exception of a deed of trust securing an issue of \$400,000.00 of first mortgage six per cent thirty-year bonds. This deed of trust is dated October 2, 1911, and covers all the property owned by the Gas Company or thereafter acquired by it. Of these bonds \$200,000.00 have been sold at prices ranging from 95% of their face value to par and the remaining \$200,000.00 of bonds are pledged as collateral security for \$100,000.00 of the company's promissory notes.

The Gas Company has prepared and submitted a draft of a deed of trust to be executed by it to Anglo-California Trust Company of San Francisco to secure the proposed new bond issue of \$1,500,000.00 of first mortgage six per cent serial gold bonds, secured by all of the property which the Company now owns or may hereafter acquire. These bonds are to be of the

denominations of \$1,000.00, \$500.00, and \$100.00 each, and are to mature serially as follows:

\$ 5,000.00 face value each year from 1917 to 1921 inclusive.
\$10,000.00 " " " " " 1922 " 1924 "
\$15,000.00 " " " " " 1925 " 1939 "
The balance, or \$1,220,000.00 face value, mature in 1940.

It is further provided that the Company may redeem any or all of the bonds upon any interest date after sixty days notice at 103 and accrued interest.

The trust deed also provides for the immediate issuance of \$400,000.00 of bonds for the Company's present corporate needs and the subsequent issue of \$1,100,000.00 of bonds from time to time in amounts not exceeding 75% of the cost of actual and reasonable expenditures made by the Company for permanent extensions and additions. It is provided, however, that no bonds shall be issued under this latter provision unless the net earnings of the Company for a period of twelve consecutive months shall have been equal to at least 12% of the face value of all bonds outstanding or applied for, and that no bonds shall be issued on account of expenditures in connection with the Company's natural gas properties.

It is further provided that none of the \$1,100,000.00 of bonds reserved for future additions and betterments shall be issued until the Company's aggregate expenditures for additions and betterments after August 1, 1915, shall equal at least \$125,000.00.

A sinking fund is provided for the purpose of retiring the \$1,220,000.00 of bonds maturing in 1940. By its terms the Company is required to pay annually to the Trustee (from 1916 to 1939 inclusive) $1\frac{1}{2}$ per cent of the aggregate face value of any of the \$1,100,000.00 of bonds above mentioned which shall have been theretofore certified and issued.

Among the other covenants subscribed to by the Company is a

provision by which the Company agrees to maintain a supply of natural gas to its mains equal to at least one-half of the total volume of gas annually sold by it. If in any fiscal year the supply shall fall below such limit the Company agrees to immediately commence the drilling of new wells until such limit shall have been reached and maintained. It is provided, however, that if the Company shall at any time have expended \$50,000.00 without obtaining a well capable of producing at least 50,000 cubic feet of gas in each twenty-four hours, its obligation to continue drilling shall cease.

In case of default 20% of the bondholders may require the Trustee to take action. The choice of remedies in all cases lies with the Trustee. A majority of the bondholders may waive any default, except default in payment of principal of bonds at maturity.

In the present application the Gas Company asks authority to issue and sell the first \$400,000.00 of bonds for the following purposes:

1.	To take up 200 bonds of the original issue, dated October 2, 1911.....	\$200,000.00
2.	To pay coupons on said bonds.....	6,000.00
3.	To take up 6% notes as follows:	
	Elizabeth Klebetz (due February 1, 1916)....	7,000.00
	Citizens Bank of Nevada City (due November 1, 1915).....	5,000.00
	Anglo-London, Paris National Bank of San Francisco (due September 29, 1915)....	67,000.00
	Anglo-London Paris National Bank of San Francisco (due October 30, 1915).....	10,000.00
	Anglo-London Paris National Bank of San Francisco (due November 21, 1915).....	11,000.00
4.	To pay interest on above notes, approximately.	650.00
5.	To reimburse treasury for expenditures from income subsequent to April 2, 1913.....	50,820.00
6.	To pay 6% promissory note to California National Bank of Sacramento (due September 29, 1915).....	1,400.00
7.	To provide for immediate extensions.....	<u>11,150.00</u>
	Total.....	\$370,000.00

The evidence shows that the holders of all of the \$200,000.00 of outstanding bonds will voluntarily sell their bonds to the Gas Company at the price which they originally paid for them and accrued interest, with the exception of the holders of five or eight bonds, who are demanding 105 and accrued interest, the redemption price of said bonds. The \$100,000.00 of notes set forth under Sub-division 3 are the renewals of notes previously authorized by this Commission under Decision No. 1246 and are properly chargeable to capital account.

As to the interest items set forth in Sub-divisions 2 and 4, amounting in all to \$6,650.00, this Commission cannot authorize the payment of this sum out of the proceeds of the sale of bonds and, accordingly, will deny the Gas Company's request for permission to use any part of the issue hereinafter authorized for this purpose.

As to the contention of the Gas Company to the effect that it had expended from its income more than \$50,820.00 for the acquisition of property and for the construction, extension and improvement of its facilities and service since April 2, 1913, we are of the opinion that a final order authorizing the company to reimburse its treasury for such expenditures cannot be made until the Gas Company has made a more complete showing in support of this portion of its application.

Mr. Jensen, the Gas Company's General Manager, further testified that the proceeds of the six per cent promissory note to the California National Bank of Sacramento for \$1,400.00, above referred to in Sub-division 5, have been used for additions and betterments to the company's plant.

Applicant has filed a detailed statement as to the extensions which it proposes to make and which according to its testimony are reasonable and necessary to enable it to supply customers who now desire service which extensions will cost the Gas Company more than \$11,113.00.

An abstract of its income accounts for the nine months from January 1, 1915, to September 30, 1915, shows the following:

	January 1915	February 1915	March 1915	April 1915	May 1915	June 1915	July 1915	August 1915	September 1915
Gas Revenues	\$11,684.25	\$10,938.40	\$9,969.45	\$11,071.60	\$10,718.95	\$10,338.15	\$8,850.00	\$8,497.05	\$9,652.95
Other "	87.37	127.86	95.23	121.30	147.28	244.47	100.36	139.39	124.61
Total "	11,771.62	11,066.26	10,064.68	11,192.90	10,866.23	10,582.62	8,950.36	8,636.44	9,777.56
Production Exp.	2,847.19	2,163.65	2,213.82	2,277.64	2,330.31	1,462.99	1,120.96	1,160.57	1,371.34
Dist. Exp.	602.41	533.08	564.66	589.87	584.04	776.71	949.62	541.72	554.27
Com. "	658.49	641.42	583.60	603.30	631.03	721.02	689.99	641.09	730.02
General Exp. (Including deprec., bond interest etc.)	6,047.53	4,565.09	4,528.02	4,723.03	4,117.04	3,610.55	3,844.61	3,859.10	3,968.10
Total Exp.	\$10,155.62	\$7,903.24	\$7,890.10	\$8,193.84	\$7,662.42	\$6,571.27	\$6,605.18	\$6,202.48	\$6,623.73
Balance to Surplus.	1,616.00	3,163.02	2,174.58	2,999.06	3,203.81	4,011.35	2,345.18	2,433.96	3,153.83

Total for Nine Months
January
to
September
1915.

Gas Revenues	\$91,720.80
Other "	1,187.87
Total "	92,908.67
Production Exp.	16,948.47
Dist. Exp.	5,696.38
Com. Exp.	5,899.96
General Exp. (Including Deprec., bond interest etc.)	39,263.07
Total Exp.	\$67,807.88
Balance to Surplus	25,100.79

Applicant's general manager testified that for the years 1910 to 1915, inclusive, the Gas Company paid an annual dividend of six per cent upon its outstanding capital stock, and that for the year 1914 it paid a dividend of four and one-half per cent. During the present year the company has paid two dividends of one and one-half per cent each and has declared a third of like amount.

Pacific Gas and Electric Company also serves the City of Sacramento and from the evidence submitted it appears that open competition prevails between the two companies and that in the neighborhood of 75% of the Gas Company's mains in Sacramento are paralleled by those of the Pacific Gas and Electric Company.

The Gas Company on December 31, 1914, had 5,242 consumers in Sacramento and 351 in Lodi. In Sacramento it has a flat rate of \$1.00 per 1,000 cubic feet, while its rates in Lodi run from \$1.50 per 1,000 cubic feet to \$1.25 per 1,000 cubic feet according to the amount of gas consumed.

From the evidence it appears that applicant is operating under constitutional franchises in both Lodi and Sacramento, and that it also has a franchise from the city of Sacramento which it procured before the question of its right to constitutional franchise was definitely settled. This franchise originally provided for the payment of three per cent of the Gas Company's gross receipts to the city, but upon the Company's disputing the city's right to collect this amount a compromise was finally made by which the Gas Company paid to the city the sum of \$4,500.00, and in return the city waived any rights it might have to the above named percentage.

From the estimates introduced at the hearing it appears that the company is being run at a low overhead cost and that its General Manager and its Secretary are both substantial stockholders in the company.

In selling the first \$400,000.00 face value of its bonds, it is evident that the Gas Company will be selling all of those which mature prior to 1939, as well as \$120,000.00 of bonds which mature in 1940. The officials of the company testified that they had been trying for two years to sell the remaining \$200,000.00 of old bonds at 95 and that their present offer of 92½ for the first \$400,000.00 of bonds under the proposed issue is the only offer they had received above 90.

If only the five bonds maturing in 1917 were to be sold at the price of 92½, the company would be paying approximately 10% interest on the money received, but under the circumstances of this case where the \$400,000.00 of bonds are to be sold in one parcel we are naturally concerned only with the average interest upon the entire lot, which is approximately 7-2/3%. This means that the Gas Company will be paying an unusually high rate of interest upon this portion of its bond issue, but from the testimony introduced we are convinced that the Gas Company has been sincerely endeavoring to finance itself in a reasonably conservative manner and that this is the best arrangement it has been able to make. From the evidence it further appears that the company needs now, and will need from time to time in the future, considerable capital with which to make further extensions and improvements in its service in order to supply the reasonable requirements of both new and old customers, and its efforts to fund its present floating indebtedness should be encouraged so far as this Commission can consistently do so.

ORDER.

SACRAMENTO GAS COMPANY having applied to this Commission for authority to create a bonded indebtedness of \$1,500,000.00 of first mortgage six per cent serial gold bonds and to issue and sell \$400,000.00 of said bonds at not less than 92½% of their

face value, and a public hearing having been held upon said application, and the Commission finding that the purposes for which the proceeds of said bonds are to be used are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Sacramento Gas Company be, and it is hereby, authorized to execute a deed of trust to Anglo-California Trust Company of San Francisco substantially in the form of the proposed deed of trust filed with this Commission on the 8th day of November, 1915, and marked "Exhibit 1".

IT IS FURTHER ORDERED that Sacramento Gas Company be granted authority and it is hereby granted authority to issue and sell under said deed of trust the first \$400,000.00 of the bonds thereunder on the following conditions, and not otherwise, to-wit:

1. Sacramento Gas Company shall sell said bonds so as to net said company not less than 92% of the par value of the principal thereof, in addition to accrued interest.

2. Sacramento Gas Company shall not sell any portion of said bonds separately, but shall sell the entire \$400,000.00 of bonds as a whole or else it shall have valid contracts of sale for all of said \$400,000.00 of bonds before it actually issues and delivers any portion of them.

3. The proceeds from the sale of said bonds shall be applied only as follows, and not otherwise:

a.	To take up and retire the 200 bonds of the company's original bond issue, dated October 2, 1911, not more than...	\$200,000.00
b.	To take up the company's notes to the following, and to retire all the bonds securing said notes:	
	Elizabeth Klebetz, due February 1, 1916.....	7,000.00
	Citizens Bank of Nevada City, due November 1, 1915.....	5,000.00
	Anglo-London Paris National Bank of San Francisco, due September 29, 1915.....	67,000.00
	Anglo-London Paris National Bank of San Francisco, due October 30, 1915.....	10,000.00
	Anglo-London Paris National Bank of San Francisco, due November 21, 1915.....	11,000.00
	California National Bank of Sacramento, due September 29, 1915.....	1,400.00
c.	To provide for extensions as set forth in the plans and maps filed with this Commission at the hearing.....	<u>11,130.00</u>
	Total.....	\$312,530.00

4. Sacramento Gas Company shall retain in its treasury the remaining \$57,470.00 of the proceeds from the sale of said bonds (together with any money that it may be able to save under the allowance of \$200,000.00 in buying back the 200 bonds under its original issue) and shall not expend the same or any part thereof except upon a further order of this Commission.

5. The approval herein given of said deed of trust or mortgage is for the purpose of this proceeding only, and approval in so far as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said mortgage or deed of trust as to such other legal requirements to which said instrument may be subject.

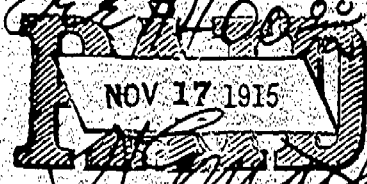
6. Sacramento Gas Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds hereby authorized to be issued and sold, and on or before the 25th day of each month shall make verified reports to the Commission, stating the sale of said bonds during the previous month, the terms and conditions of such sale, the moneys realized therefrom, and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which order in so far as applicable is made a part of this order.

7. The authority hereby given to issue and sell bonds shall apply only to bonds so issued and sold by the Gas Company on or before the 31st day of October, 1916.

8. This order shall not become effective until the fee prescribed by Section 57, ~~xxxxxxx~~ of the Public Utilities Act has been paid.

Dated at San Francisco, California, this 13th day of November, 1915.

Railroad Commission, State of California



BY Assistant Secretary

Max Thelem
W. H. Loveland
Alex. Gordon
Edwin D. Edgerton
Frank R. Decker
Commissioners.