

Decision No. ✓ .

ORIGINAL

Decision No. 20914

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application)	
of ONTARIO-UPLAND GAS COMPANY for)	
an order authorizing the issue)	Application No. 2027.
and sale of stock and bonds and the)	
execution of a mortgage securing)	
said bonds.)	

Leroy M. Edwards for applicant.

BY THE COMMISSION.

O P I N I O N.

This is an application on behalf of Ontario-Upland Gas Company, hereinafter designated and referred to as the gas company, for authority to issue \$11,005.00 par value of capital stock at not less than 75¢ per share, to execute a mortgage or deed of trust securing a bonded indebtedness of \$100,000.00, and to issue and sell \$75,000.00 face value of said bonds at the best price obtainable. Applicant desires to use the proceeds from the sale of these stocks and bonds for additions and betterments, for refunding outstanding bonds and notes, and for reimbursing its treasury for moneys expended from income, as hereinafter more particularly set forth.

Applicant, as its name implies, is engaged in the business of furnishing gas to the inhabitants of Ontario

and Upland, San Bernardino County. The gas company was incorporated under the laws of the State of California in March, 1909, and began operation in Ontario in July of that year and in Upland a few months later. Its articles of incorporation provide for a total capital stock of \$100,000.00 par value, consisting of 100,000 shares of common stock of the par value of \$1.00 each. The company has no preferred stock. At the present time 88,995 shares are issued and outstanding. This stock was issued under the following conditions:

5 shares allotted to the company's incorporators at \$1.00 per share. . . .	\$	5.00
21,524 shares purchased by subscribers at 50¢ per share.		10,762.00
42,466 shares allotted to J. R. Anderson, the promoter of the company, on a basis of 50¢ per share for supplying and erecting the original plant and laying street mains.		21,233.00
25,000 shares allotted as fully paid to J. R. Anderson, evidently for promotion services.		
88,995 shares issued in return for which the gas company received.	\$32,000.00	

The difference between the cash or other tangible consideration received and the par value of the stock issued, amounting to \$56,995.00, is carried on the gas company's books under the head of "Gas Franchises".

The company has paid dividends during the last six years as follows:

1910	4%	(\$3,559.64)	on	\$88,995.00	capital stock.
1911	4%	(\$3,559.62)	on	\$88,995.00	capital stock.
1912	4%	(\$3,559.68)	on	\$88,995.00	capital stock.
1913	5%	(\$4,449.65)	on	\$88,995.00	capital stock.
1914	4%	(\$3,559.64)	on	\$88,995.00	capital stock.
1915	5%	(\$4,449.65)	on	\$88,995.00	capital stock.

The gas company has no preferred stock but it has an outstanding bond issue of \$25,000.00 face value of first mortgage 7 per cent bonds dated June 1st, 1909, and maturing June 1st, 1921. These bonds are secured by a deed of trust to Merchants Bank and Trust Company of Los Angeles covering all of applicant's property and are redeemable at 105. The deed of trust contains no provision for a sinking fund and no such fund has been created by the gas company.

When these bonds were issued the entire amount was allotted to J. R. Anderson in part payment for supplying and erecting the gas plant in the City of Ontario and laying street mains in Ontario and Upland. The company has at the present time the following outstanding notes:

<u>Payee</u>	<u>Date</u>	<u>Term</u>	<u>Interest</u>	<u>Principal</u>
Western Boiler & Steel Company,	12/7/15	3 months	7%	\$10,000.00
Western Boiler & Steel Company,	12/7/15	6 months	7%	10,000.00
Western Boiler & Steel Company,	12/7/15	9 months	7%	5,122.57
Bent & Pennebaker.	12/7/15	6 months	7%	550.00
Total				\$25,672.57

The notes to Western Boiler and Steel Company were given in payment for additions made to the gas company's plant since July 1st, 1915, and the note to Bent & Pennebaker was given in payment for road construction work. Applicant is also under a contract to pay the Western Boiler and Steel Company for certain extensions and betterments to its system which are now under course of construction and which the gas company estimates will cost \$680.00.

The company has reported earnings for the years ending December 31, 1912, 1913, 1914 and 1915 as follows:

<u>Item</u>	<u>1912</u>	<u>1913</u>	<u>1914</u>	<u>1915</u>
Operating Revenues	\$26,676.90	\$26,338.73	\$27,313.03	\$31,044.02
Operating Expenses	<u>17,809.99</u>	<u>21,338.51</u>	<u>19,787.74</u>	<u>20,639.89</u>
Net Operating Revenue	8,866.91	5,000.22	7,525.29	10,404.13
Non-Operating Revenue	-	207.29	197.18	196.15
Gross Corporate Income	8,866.91	5,207.51	7,722.47	10,600.28
Deductions:				
Bond Interest	1,744.93	1,750.00	1,750.00	1,750.00
Miscellaneous Deductions	-	815.36	67.38	156.33
Total Deductions	1,744.93	2,565.36	1,817.38	1,906.33
Amount carried to corporate surplus account	7,121.98	2,642.15	5,905.09	8,693.95
Corporate Surplus Account -				
Surplus at beginning of year	194.07*	5,084.44	3,276.15	5,606.25
Additions for year:				
Profit from income account	7,121.98	2,642.15	5,905.09	8,693.95
Miscellaneous additions	2,178.03	14.52	84.60	467.53
Total Additions	9,300.01	2,656.67	5,989.69	9,161.48
Total additions plus surplus	9,105.94	7,741.11	9,265.84	14,767.73
Deductions for year:				
Dividends	3,559.68	4,449.65	3,559.64	4,449.60
Miscellaneous deductions	461.82	15.31	99.95	57.88
Total Deductions	4,021.50	4,464.96	3,659.59	4,507.48
Surplus at close of year	\$5,084.44	\$3,276.15	\$5,606.25	\$10,260.25

* Deficit.

The company submitted a statement of its assets and liabilities as of December 31, 1915, as follows:

ASSETS.

1.	Fixed Capital installed prior to Jan. 1, 1913....	\$ 113,151.28
	Schedule A-1	
2.	Fixed Capital installed since Dec. 31, 1912.....	40,315.70
	Schedule A-2	
3.	Cash and Deposits	
	A. Cash.....	\$2,783.61
	B. Term Deposit in Safety Bank and Imprest Fund.	3,371.70
		6,155.31
5.	Accounts Receivable	
	B. Due from Consumers...	2,987.49
	C. Misc. Accounts Rec...	2,129.18
		5,116.67
9.	Materials & Supplies.....	2,537.45
12.	Treasury Securities--Stock.....	11,005.00
13.	Prepaid Insurance.....	17.22
15.	Other Suspense.....	553.59
		<hr/>
		\$178,852.22

LIABILITIES.

18.	Capital Stock.....	\$100,000.00
20.	Funded Debt.....	25,000.00
23.	Notes Payable (Schedule A-3).....	25,672.57
24.	Accounts Payable	
	B. Audited Vouchers and Wages Unpaid.....	\$1,193.59
	C. Consumers' Deposits..	369.50
	D. Misc. Accounts Pay- able.....	836.76
		2,399.85
25.	Interest Accrued.....	145.83
26.	Taxes Accrued	
	A. Taxes Accrued Regu- lar.....	697.88
	B. Ontario Franchise Tax Accrued.....	768.76
	C. Upland Franchise Tax Accrued.....	238.57
		1,705.21
29.	Reserve for Accrued Depreciation.....	13,668.51
36.	Corporate Surplus Unappropriated.....	10,260.25
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		\$178,852.22

Applicant operates in Ontario under a franchise granted by the City in March, 1909, for a term of 50 years, and in Upland under a franchise granted in July of the same year for a like period. No evidence as to the actual cost of these franchises was submitted.

In Decision No. 1189, reported in Volume 4, Opinions and Orders of the Railroad Commission of California, p. 1, the Commission's Engineering Department estimated the reproduction cost of the gas company's plant at \$64,931.00, and the depreciated value as of December , 1913, at \$54,772.00. As pointed out in that opinion, however, the gas company was probably entitled to an additional valuation of from \$1,500.00 to \$2,000.00 owing to certain adjustments.

From the evidence it appears that applicant has made the following additions to its plant during the period from September 30, 1913, to July 1, 1915, at the cost given in the accompanying table:

Gas plant buildings and general structures..\$	876.14
Purification apparatus.....	1,796.17
Accessory equipment at works.....	417.63
Distribution mains.....	2,633.44
Gas services.....	429.41
Meters.....	2,116.41
Gas regulators.....	7.00
Commercial arc lamps.....	8.08
Miscellaneous distribution equipment.....	784.42
Garage, Pipe Fitting Room and shed.....	255.79
Office Equipment.....	<u>333.30</u>
Total.....	\$9,657.79

Between July 1 and November 30, 1915, applicant has made the following physical additions to its plant under construction contracts with Western Boiler and Steel Company of Los Angeles at the following costs:

Distribution mains.....	\$ 6,362.75
50,000 cubic foot gas holder, including foundation.....	8,235.00
Gas generators.....	6,733.73
Purification apparatus.....	673.89
Foundation for generators and purification apparatus.....	175.00
Yard piping.....	1,074.55
New generator building.....	1,387.77
Spray water cooler.....	122.47
Boiler stack and freight.....	64.90
Miscellaneous work.....	319.51
Gas company's supervision, maps and details.....	<u>374.85</u>
Total to November 30, 1915.	\$25,524.42

Applicant also submitted an itemized statement of the cost of the work now contracted for and in process of completion at..... 780.00 and the cost of new road work connecting applicant's plant which was done by contract with Bent & Pennebaker..... 550.00
Total.....\$26,854.42

Applicant further submitted an itemized statement of its tangible capital which had been retired during the respective periods above mentioned, amounting to the total for the entire time from September 30, 1913, to date of \$8,663.73.

Beginning with the estimate of the Commission's engineers, referred to in Decision No. 1189, and making the adjustments for additions and betterments to applicant's plant and for retirements therefrom, and allowing also for certain minor elements, it would appear that the present value of applicant's physical property may be considered as amounting to from \$85,000.00 to \$90,000.00. As against this estimated value applicant has outstanding:

Bonds.	\$25,000.00
Notes.	25,672.57
Contingent liability for additions and betterments now under construction.	680.00
Capital Stock.	<u>88,995.00</u>
Total.	\$140,347.57

Although applicant originally asked for authority to issue \$11,005.00 par value of common stock, it later requested that this portion of its application be held in abeyance. For that reason it will not be necessary to pass, at this time, upon the advisability of issuing such stock, but we desire to draw the applicant's attention to the necessity, on the basis of the foregoing financial summary, of certain alterations in its general plan before such stock may be authorized. The attention of the applicant is especially directed to the rulings of this Commission wherein it has been held that stock should be authorized on a more satisfactory basis of assets than is here reflected.

The Commission has, however, found the estimates submitted by applicant as to the cost of its additions and betterments to have been decidedly moderate, and applicant

appears to be conducting its business in an efficient and economical manner and we believe that applicant may well be authorized to issue a sufficient number of bonds to care for its obligations as presented. This authorization will be given on the condition that the company shall buy in its outstanding bonds at not more than their par value instead of paying the redemption premium of 5%, which would cost this company a total of \$1,250.00. If the present holders wish to continue as bondholders of this company they will be able to buy the new bonds at 90 and thus they will not be subjected to any hardship.

Applicant has submitted a statement of extensions and construction work which it believes should be carried out within the near future and which applicant estimates would cost it a total of \$11,675.00. While these improvements probably ought to be made sooner or later, we think it is better not to authorize the sale of the bonds for this purpose until applicant is ready to proceed with the improvements. The matter may then be taken up with this Commission and authority granted under a supplemental order for the issue and sale of a sufficient number of bonds to provide for these improvements.

Applicant further asks for permission to reimburse its treasury out of the proceeds of said new bond issue for moneys actually expended from income and other moneys in the treasury. Applicant alleges that this money was expended for additions to the plant which were made from September 30, 1913, to July 1, 1915, as above set forth in detail, amounting to the sum of \$9,657.79. We believe that applicant's immediate necessities will be met by authorizing it, at this time, to reimburse its treasury to the extent of \$2,500.00.

We are unable to approve in its present form the proposed deed of trust submitted by applicant but we shall authorize the execution of a deed of trust securing the bond issue hereinafter authorized upon condition that applicant shall submit a new deed of trust and, before its execution, shall have the same approved by a supplemental order of this Commission.

O R D E R.

ONTARIO-UPLAND GAS COMPANY having applied to this Commission for authority to issue \$11,005.00 par value of its capital stock at not less than 75 cents per share and to execute a mortgage or deed of trust to secure a bonded indebtedness of \$100,000.00 of first mortgage, 20 year, 6% bonds, and to issue and sell \$75,000.00 face value of said bonds at the best price obtainable, and a public hearing having been held upon said application and the Railroad Commission finding that the purposes for which said bonds or the proceeds thereof are to be used are not in whole or in part reasonably chargeable to operating expenses or to income, and that the application should be granted in part,

IT IS HEREBY ORDERED that that portion of applicant's petition requesting authority to issue \$11,005.00 par value of its capital stock is hereby denied without prejudice, and

IT IS HEREBY FURTHER ORDERED that Ontario-Upland Gas Company be and it is hereby authorized to execute a mortgage or deed of trust of its properties to secure a bonded indebtedness of \$100,000.00 par value of first mortgage, 20 year, 6% bonds,

IT IS HEREBY FURTHER ORDERED that Ontario-Upland Gas Company be and the same is hereby granted authority to issue

\$60,000.00 face value of said first mortgage, 20 year,
6% bonds.

The authority herein granted to the applicant to execute a mortgage of its properties and to issue \$60,000.00 of its bonds is granted upon the following conditions, and not otherwise:

1- Ontario Upland Gas Company shall issue said bonds so as to net said company not less than 90 per cent of the par value of the principal thereof and accrued interest thereon.

2- Before any of said bonds herein authorized shall be issued, applicant shall make definite provision for the purchase at not more than par of all of its present issue of \$25,000.00 of bonds now outstanding; and said outstanding bonds shall be returned to applicant and cancelled before or immediately upon the issue of any of the bonds herein authorized.

3- The proceeds of the bonds herein authorized to be issued shall be applied as follows:

To refund all of applicant's present issue of bonds.....	\$25,000.00
To pay applicant's three outstanding notes to Western Boiler and Steel Company.....	25,122.57
To pay applicant's note to Bent and Pennebaker.....	550.00
To pay Western Boiler and Steel Company for the certain additions and betterments to its system, now under course of construction, and referred to in the foregoing Opinion.....	680.00
To reimburse applicant's treasury on account of moneys expended from income.....	<u>2,500.00</u>
Total.....	\$53,852.57

4- Applicant shall submit to this Commission a revised deed of trust and shall not execute any deed of trust until it shall have obtained a supplemental order approving the same.

5- The authority herein granted to execute the mortgage or deed of trust above mentioned and to issue bonds as above set forth, shall apply only to such mortgage or deed of trust as shall be executed, and to such bonds as shall be issued, on or before August 31, 1916.

6- Applicant shall report to the Railroad Commission within 30 days after the issue of the bonds herein authorized the face value of the bonds so issued, the net amounts received therefor, and the disposition of the proceeds thereof, 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- This Order shall not become effective until applicant has paid the fee specified in Section 57, as amended, of the Public Utilities Act.

Dated at San Francisco, California, this 14th day of February, 1916.

Railroad Commission State of California

W. C. ...
FEB 26 1916
BY: *W. C. ...*
Assistant Secretary

Max Thelen

H. D. ...

W. C. ...

Edwin C. ...

Franz R. ...

Commissioners.