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Decision No. ✓

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of VALLEY NATURAL GAS COMPANY)
for an order authorizing the issue)
of preferred and common stock.)

ORIGINAL

Application No. 2017

Decision No. 3103

Lilienthal, McKinstry & Raymond,
by Joseph Haber, Jr., for applicant.

BY THE COMMISSION.

O P I N I O N

This is an application of Valley Natural Gas Company of Bakersfield, Kern County, for authority to issue 300 shares of common stock at not less than \$80. per share and 400 shares of preferred stock at not less than \$90. per share for the purpose of constructing a gas distribution and transmission system in that portion of Kern County lying between Wasco and Rosedale.

Valley Natural Gas Company was incorporated under the Laws of the State of California, in November, 1915. Its Articles of Incorporation include the right to generate, produce and distribute electric energy, gas, light, fuel, heat and power of all kinds for all lawful purposes. It is incorporated for a term of 50 years.

The directors and incorporators of the Company are as follows:

C. B. Colby,	Bakersfield, California,
W. A. Fischer,	Bakersfield, California.
F. H. Hall,	Bakersfield, California.
Ira Hochheimer,	Bakersfield, California.
C. R. Blodget,	Bakersfield, California.

The Company has an authorized capitalization of \$3,000,000. divided into 15,000 shares of common stock of the par value of \$100.00 per share and 15,000 shares of 8% cumulative preferred stock of the par value of \$100.00 per share. The terms of preference of the preferred stock as given in the Company's Articles of Incorporation are as follows:-

"Said preferred stock shall receive from the net earnings of the corporation an eight per cent. (8%) annual, cumulative, preferential dividend before any dividends are paid upon the common stock, and all dividends paid by the corporation beyond such eight per cent (8%) annual, cumulative, preferential dividend so paid on the preferred stock shall be paid on the common stock, and the preferred stock shall not in any way participate therein. Upon the dissolution or other termination of the corporation, holders of said preferred stock shall receive from the corporation the par value thereof and all unpaid dividends thereon before the distribution of any assets to the holders of common stock, and all additional and remaining assets shall be distributed among holders of common stock, and the holders of preferred stock shall not in any way participate in the distribution thereof."

A hearing in this application was held at Bakersfield on January 21, 1916 at which time the application of Valley Natural Gas Company for a certificate of public convenience and necessity (Application No. 2018) was also heard. Reference is hereby made to the Commission's decision in said Application No. 2018 for a more detailed description of applicant's project.

At the present time applicant desires to issue 500

shares of common stock at \$80. per share and to use the proceeds or such portion thereof as may be necessary, in defraying organization expenses. At the hearing applicant submitted statements of such expenditures to date totaling \$6,186.42. A segregation of these expenditures is as follows:-

Company organization,	\$1,192.75
Investigation of Territory.	2,786.65
Franchise Expense	210.95
Engineering	1,943.70
Office Furniture and Supplies	<u>52.37</u>
Total.	\$6,186.42

Of the above amount the Company's organizers have paid \$2,353.54, leaving \$3,832.88 still due. Applicant states that this sum does not include any expenditures for supervision prior to organization, for promotion, for attorneys' fees and for certain engineering services rendered to applicant in connection with other aspects of this project, and that it is its intention to hereafter apply for an order authorizing the issuance of common stock for such purposes.

The Company also asks for authority to issue 400 shares of its 8% preferred stock at \$90.00 per share and to use the proceeds in defraying a portion of the cost of building its transmission line and laterals between Rosedale and Wasco.

Applicant estimates the cost of this line at \$84,180. It proposes to raise \$36,000. of this amount from the sale of preferred stock and the balance or \$48,180, from an issue of short term notes.

Following is the detailed estimate submitted by applicant as to the cost of its transmission line, laterals, etc.

25 miles 4" main @ 2,400.00	\$60,000.00
12 miles 2" main @ 900.00	10,800.00
300 meters and regulators @ 8.00	2,400.00
Overhead and indirect expenses	<u>10,980.00</u>
Total	\$84,180.00

Applicant represents that it will be enabled to put its project on a revenue producing basis by the expenditure herein outlined and certain other incidental outlays which will bring the total to approximately \$100,000.00.

Valley Natural Gas Company has entered into a contract with California Natural Gas Company by which it will purchase natural gas at 10 cents per 1,000 cubic feet. It has solicitors in the field seeking contracts for the sale of this natural gas to farmers along the route of its proposed pipe line from Rosedale to Wasco in Kern County.

The larger part of its sales will be to farmers desiring natural gas for fuel to be used in gas engines for pumping water for irrigation. Applicant will also sell gas for domestic purposes to consumers in the section of Kern County traversed by its lines.

Applicant estimates that it will be able to obtain a net revenue from this territory of approximately \$30,000.00 during the first year of operation. This will require a gross revenue of approximately \$50,000.00 per annum and the sale of approximately 8,300,000 cubic feet of gas per month for gas engine service. These estimates are based on applicant's proposed rates for gas engine service which are upon a sliding scale and range from \$.55 to \$.35 per 1,000 cubic feet. In support of its statements representatives of the Company stated that it had on file 200 applications for natural gas service.

While it is manifestly difficult to estimate with accuracy the possible earnings from such a project it is desirable that such an effort as this to put into practical use the natural resources of this state should meet with such encouragement as this Commission can consistently give. We believe the applicant has made a careful canvas of this territory and has shown that there exists a real demand for the service which it proposes to give.

The proponents of this project have asserted their

willingness and desire to purchase stock in this Company in larger amounts than herein indicated. It appears furthermore that the applicant has certain larger plans in mind to be determined later upon the measure of success obtained in this initial enterprise.

The promoters of this undertaking have carefully calculated the cost of the pumping service to the agriculturist on the basis of a natural gas fuel as compared with a distillate fuel and in comparison also with the cost of electric energy. On the basis of these calculations, the applicant is convinced that a large business will be developed.

As hereinbefore set forth applicant proposes to sell its 8% preferred stock at \$90. per share. At this figure the stock will yield a return of 8.89%. This Commission has heretofore commented upon the peculiar and speculative nature of a natural gas enterprise and in the case of the Midway Gas Company expressed its opinion that a 10% return was not unreasonable upon an investment in a natural gas project of the Midway type.

At the present time no other gas utilities are operating in this territory and applicant's success will depend largely upon its ability to serve gas to pumping plants at a price that can compete with distillate fuel or electric energy.

After a consideration of the evidence, we believe that this application should be granted, subject, however, to the terms of the following Order:

O R D E R

VALLEY NATURAL GAS COMPANY having applied to this Commission for authority to issue 300 shares of common stock of the par value of \$100.00 per share and 400 shares of preferred stock of the par value of \$100.00 per share and to use the proceeds in organizing a natural gas corporation and constructing a gas distribution and transmission system in Kern County as hereinbefore set forth, and a hearing having been held, and it appearing to this

Commission that the purposes for which applicant proposes to issue said stock are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that Valley Natural Gas Company be granted authority to issue 300 shares of its common capital stock of the par value of \$100.00 per share and 400 shares of its preferred capital stock of the par value of \$100.00 per share.

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

- 1.-The common stock herein authorized to be issued shall be sold so as to net applicant not less than \$80. per share.
- 2.-The preferred stock herein authorized to be issued shall be sold so as to net applicant not less than \$90. per share.
- 3.-Of the common stock herein authorized to be issued applicant may issue not to exceed 78 shares at the present time for the purpose of defraying organization expenses already incurred by applicant in the sum of \$6,186.42 as hereinbefore set forth. The remainder of said common stock shall be issued by applicant only after it shall have filed a supplemental application with this Commission setting forth in detail the purposes for which it proposes to issue said common stock and shall have received a supplemental order from this Commission approving the same.
- 4.-The proceeds derived from the sale of the preferred stock herein authorized to be issued shall be used only for the purpose of constructing a gas distribution and transmission system in Kern County in accordance with the general plans and specifications

outlined in the application herein.

- 5.-Valley Natural Gas Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the stock herein authorized to be issued; and on or before the twenty-fifth day of each month the Company shall make verified reports to the Commission stating the sale or sales of said stock during the preceding month, the terms and conditions of the 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.
- 6.-The authority herein granted to issue stock shall apply only to such stock as shall be issued on or before February 1, 1917.

Dated at San Francisco, California, this 16th
day of February, 1916.

Max Thelen

H. B. ...

Edwin O. Edgerton

Francis R. ...

Commissioners.