

Decision No. ✓.

ORIGINAL

Decision No. 2229

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the matter of the application of  
MODESTO GAS, LIGHT, COAL AND COKE  
COMPANY for an order authorizing it  
to transfer all of its property to  
MODESTO GAS COMPANY.

}  
} Application No. 2206.  
}

In the matter of the application of  
MODESTO GAS COMPANY for an order  
authorizing the issue of 995 shares  
of its capital stock and the execu-  
tion of an agreement assuming all the  
liabilities of the MODESTO GAS, LIGHT,  
COAL AND COKE COMPANY, and for an  
order authorizing the creation of a  
bonded indebtedness and the issue of  
bonds.

}  
} Application No. 2207.  
}

Walter D. Mansfield for applicants.

BY THE COMMISSION.

O P I N I O N.

Of the two above entitled applications the first requests an order of this Commission authorizing Modesto Gas, Light, Coal and Coke Company, a California corporation engaged in the business of furnishing gas to the inhabitants of Modesto, Stanislaus County, hereinafter designated and referred to as the "old company", to transfer all of its property, both real and personal, to Modesto Gas Company, a California corporation, hereinafter designated and referred to as the "new company", which has been organized for the purpose of taking over the business of the old company in consideration of the new company issuing 995 shares of its capital stock to

the old company and assuming all of its obligations and indebtednesses. The second is an application by the new company for an order authorizing it to issue to the old company 995 shares of its capital stock of the par value of \$100.00 per share, and to execute and deliver to the old company its written agreement to assume and discharge all the liabilities of said old company, and for an order authorizing the execution of a mortgage or deed of trust securing \$200,000.00 face value of 30 year 6% bonds, and the issue and sale of \$65,000.00 face value of said bonds at not less than 90% of their face value.

These two applications were consolidated, with the applicants' consent, at the public hearing which was held in San Francisco April 25, 1916. From the evidence it appears that the old company, after receiving authority from this Commission on December 9, 1915, by Decision No. 2963, to create a bonded indebtedness of the face value of \$200,000.00 and to issue and sell \$65,000.00 face value of its bonds at not less than 90, found it difficult to sell the same owing to the fact that the prospective purchasers considered the remainder of the company's corporate existence two short to afford the bonds absolute protection; and in order to overcome this objection the new company was organized on March 20, 1916, for a term of fifty years.

Both companies have an authorized capital stock of 1,000 shares of the par value of \$100.00 each. The stock of the old company is all issued and outstanding, while the new company has issued only the five shares necessary for the purpose of incorporation, which shares were issued at par. The old company will disincorporate as soon as practicable after the transfer has been made and will distribute the shares of stock received in consideration for the transfer to its stockholders in accordance with their various holdings in the old company. The new company then desires to create a bonded indebtedness and to issue the same amount of bonds as the old company was authorized to issue under Decision No. 2963 (supra)

and to apply the proceeds to substantially the same uses.

W. J. Hammond, one of the Commission's assistant engineers, made an examination of the old company's property and submitted a report upon the same. In this report the reproduction cost and the depreciated reproduction cost of applicants' physical properties is estimated as follows, the depreciation being computed under the straight line method:

<u>Item</u>	<u>Reproduction Cost</u>	<u>Age Years</u>	<u>Life Years</u>	<u>Reproduction Cost Less Depreciation</u>
Land	\$ 15,135	-	-	\$ 15,135
Production Plant	13,916	5	35	11,928
Gas Holders	17,866	5	50	16,079
Boilers and accessories	4,456	3	30	4,010
Gas Generators	12,145	5	25	9,716
Accessory equipment at works	15,319	5	28	12,583
Purification apparatus	1,777	8	20	1,066
Gas Mains:				
2" W.I.	5,361	8	25	3,645
2½" W.I.	2,167	7	28	1,625
4" W.I.	34,668	6	35	28,748
4" C.I.	1,336	10	55	1,093
6" C.I.	1,459	20	65	1,010
8" C.I.	2,846	10	75	2,466
Gas Service	7,518	6	20	5,263
Gas Meters:				
Light tin	7,376	5	20	5,532
Iron	1,911	2	25	1,757
Municipal Street Lights	8,893	3	15	7,114
Commercial gas arcs	2,137	4	10	1,282
Miscellaneous Distribution Equipment	542	4	10	325
General Equipment	8,159	2	7	5,828
Materials and Supplies	5,457	2	8	4,093
Totals.....	\$170,444			\$140,298

Assuming the present value of the physical property of the old company for selling purposes to be \$140,298.00 and adding thereto the value of the old company's outstanding solvent accounts as estimated by the company's general manager at \$10,000.00, we have the total amount of \$150,298.00.

From the proceeds of the proposed issue of \$65,000.00 par value of bonds at 90 the new company will devote \$49,518.31 to discharging the debts of the old company. The remaining \$8,981.69 will be spent for the extension of mains and services in the Maze Addition in the City of Modesto. To the sum of \$150,298.00 should accordingly be added the \$8,981.69 so to be applied as well as the \$500.00 received from the issue of the 5 shares of stock for organization purposes, resulting in a total of \$159,779.69 as the estimated selling value of the property acquired by the new company and certain extensions to be made by it in the Maze Addition without making any allowance for intangible values. From this amount should be deducted \$65,000.00 representing the bonds that will then be outstanding, leaving the sum of \$94,779.69 as representing the tangible value of all of the old company's outstanding stock.

#### O R D E R.

MODESTO GAS, LIGHT, COAL AND COKE COMPANY, a California corporation, having applied to this Commission for an order authorizing it to transfer all of its property to MODESTO GAS COMPANY, a California corporation, and Modesto Gas Company having applied to this Commission under a separate application for an order authorizing the creation of a bonded indebtedness of \$200,000.00 face value of first mortgage 6 per cent 30-year gold bonds and the issue of \$65,000.00 of said bonds at not less than 90% of their face value, and the issue of 995 shares of its capital stock of the par value of \$100.00 per share, and the execution of an agreement assuming all the liabilities of Modesto Gas, Light, Coal and Coke Company

and for an order authorizing the creation of a bonded indebtedness and the issue of bonds, and a public hearing having been held at which the two applications were consolidated, and the Commission finding that the purposes for which the stock is to be issued and the proceeds of the 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 Modesto Gas, Light, Coal and Coke Company be and it is hereby authorized to execute an indenture substantially in the form of the draft of indenture annexed to Application No. 2206 and designated as Exhibit No. 1, transferring all of its property, real and personal, including choses in action, to Modesto Gas Company in consideration for 995 shares of the capital stock of Modesto Gas Company and the assumption by the last mentioned company of all the liabilities of Modesto Gas, Light, Coal and Coke Company.

IT IS HEREBY FURTHER ORDERED that Modesto Gas Company be and it is hereby authorized to execute an instrument substantially in the form of the draft annexed to Application No. 2206 and designated as Exhibit No. 1-a, thereby assuming and agreeing to pay and discharge all just debts, liabilities and obligations of said Modesto Gas, Light, Coal and Coke Company.

IT IS HEREBY FURTHER ORDERED that Modesto Gas Company be and it is hereby authorized to execute a mortgage or trust indenture to the Union Trust Company of San Francisco substantially in the form of the proposed indenture filed with this Commission on May 5, 1916, and marked Exhibit B, to secure the proposed bond issue of \$200,000.00 face value of bonds as therein set forth.

IT IS HEREBY FURTHER ORDERED that Modesto Gas Company be and it is hereby authorized to issue and sell under said trust indenture bonds to the par value of \$65,000.00.

The authority herein granted is granted subject to the following conditions and not otherwise:

1. Modesto Gas Company shall sell said \$65,000.00 of bonds so as to net said company not less than 90% of the face value of the principal thereof in addition to accrued interest thereon.

2. The proceeds from the sale of said bonds shall be applied only as follows:

Refunding the promissory note of the old company dated January 2, 1912, in favor of Frank A. Cressey.....	\$27,663.65
Refunding the promissory note of the old company dated February 14, 1914, in favor of Frank A. Cressey.....	15,114.35
Refunding indebtedness of old company for cash advanced to it by Frank A. Cressey.....	3,000.00
Refunding the old company's indebtedness to Farmers and Merchants National Bank of Modesto upon its open account.....	3,740.31
For the extension of the new company's gas mains and services in the Maze Addition to the City of Modesto.....	<u>8,981.69</u>
Total.....	\$58,500.00

3. The authority herein given to Modesto Gas, Light, Coal and Coke Company to convey its property to Modesto Gas Company shall not become effective until Modesto Gas Company shall have filed with the Railroad Commission a stipulation authorized by its Board of Directors agreeing that Modesto Gas Company, its successors and assigns, will never claim before the Railroad Commission or any other public authority in any proceeding any value for the so-called constitutional franchise or any other franchises to be conveyed by Modesto Gas, Light, Coal and Coke Company to Modesto Gas Company in excess of the actual cost to Modesto Gas, Light, Coal and Coke Company of acquiring the same, and shall have secured from the Railroad Commission a supplemental order reciting that such stipulation in form satisfactory to the Railroad Commission has been filed herein.

4. Modesto 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 herein authorized to be issued; and on or before the 25th day of each month the company shall make verified reports to this Commission stating the sale or sales of said bonds 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.

5. The approval herein given of the mortgage or indenture for the proposed bond issue is for the purpose of this proceeding only and an 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 as to such other legal requirements to which said mortgage may be subject.

6. The authority herein given to issue and sell bonds, to issue stock and to convey property shall apply to bonds or stock so issued and property so conveyed on or before December 31, 1916.

7. This order shall not become effective until the fee prescribed by Section 56 of the Public Utilities Act has been paid.

Dated at San Francisco, California, this 13<sup>th</sup> day of May, 1916.



[Signature]  
[Signature]  
[Signature]  
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Commissioner.