

ORIGINAL

Decision No. _____

Decision No. 3967

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the matter of the application
of HANFORD GAS AND POWER COMPANY,
a corporation, for an order au-
thorizing the issue and sale of
bonds.

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} Application No. 2639.

E. E. Bush for applicant.

BY THE COMMISSION:

O P I N I O N.

HANFORD GAS & POWER COMPANY applies for authority to mortgage its property to secure the payment of \$70,000. in 6% 20 year first mortgage bonds, to be sold at not less than 98% of their face value; \$40,000 of the proceeds to be used in retiring its present bonded indebtedness, and the remainder to be used for extensions and betterments to its plant and system.

x Applicant was incorporated December 12, 1902, with an authorized capital stock of \$100,000 divided into 100,000 shares of the par value of \$1.00 each, all issued prior to the effective date of the Public Utilities Act. All but 600 shares are now held by five persons. Its \$40,000 of bonds are held in two blocks of \$25,000 and of \$15,000 respectively.

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The territory served by the Hanford Gas and Power Company is, at the present time, almost exclusively confined to the city of Hanford, with an estimated population of 6500, and 4829 by the federal census of 1910.

It was shown that the population is increasing steadily and that in one subdivision some 50 houses have been built within the last two years.

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The generating plant, the first unit of which was constructed in 1903, consists of two 4' straight shot oil gas sets with a total capacity of 240,000 cubic feet for 24 hours. There are the usual generators, scrubbers, blowers and other accessories found in all gas works. The storage capacity consists of one 30,000 cubic foot relief holder and a 100,000 cubic foot storage holder of steel construction. The plant is modern, and, with proper operation, will produce efficient results.

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The distribution system consists of 13 miles of mains, varying in size from 6" to 2", and connected to about 720 services and meters. The annual sale of gas for the year 1915, as shown by the Company's report to the Commission, was 14,269,400 cubic feet, which is an average of about 40,000 cubic feet per day. Comparing this figure with the generator and storage capacity, it is very evident that the production facilities are ample for a much heavier demand for gas and that the reserve capacity of storage holders will provide for all fluctuations with a greatly increased consumption.

The City of Hanford is compactly built

and a large number of new consumers can be connected to the present lines with only an additional high pressure line to reinforce the existing system.

The present average consumption of gas is about 20,000 cubic feet per year per meter. It would not be unreasonable to expect to see this increased to 25,000 cubic feet. Both the number of consumers and the consumption per meter can probably be increased through a well planned and carefully developed business campaign.

It was stipulated that the record in the case of Frederick Cuttle, et al. v. Hanford Gas & Power Company, No. 945, relating to service and rates, and heretofore submitted to the Commission, be placed in evidence in connection with this application, and that the valuation of applicant's property estimated by the Commission's engineers in that proceeding be used as the valuation of applicant's property in this proceeding.

Mr. Caskell S. Jacobs, one of the Commission's gas engineers, made a study of applicant's system and business showing by exhibits in evidence in that case, gas manufactured and sold, active meters, consumption per meter, crude oil used per thousand feet of manufactured gas; and revenue and operating expenses for 1913, 1914 and 1915, as shown by applicant's books.

The engineers for the Commission estimate the reproduction cost, and the reproduction cost less depreciation of applicant's plant as of June 30, 1916, as follows:

<u>Item</u>	<u>Reproduction</u>	
	<u>Cost</u>	<u>Cost Less Depreciation</u>
Franchise (gas)	\$250.00	\$250.00
Land devoted to gas operations	2250.00	2250.00
Gas plant buildings and general structures	4749.58	3426.96
Holders	20061.00	16878.36
Furnaces, boilers and accessories	2372.47	1732.63
Gas generators	6723.79	3974.21
Purification apparatus	5160.65	3593.41
Steam engines	685.00	305.06
Miscellaneous gas plant equipment	413.40	357.93
Accessory equipment at works	5987.89	4543.55
Miscellaneous production equipment	543.00	406.90
Distribution mains	23188.67	17720.04
Gas services	8036.83	5223.94
Gas meters	6877.00	4695.93
Miscellaneous distribution equipment	1810.00	1162.50
General equipment	200.00	160.00
Undistributed construction expenditures	8247.14	6140.65
Interest during construction	2218.83	1674.62
Stores and supplies		
	<u>1618.36</u>	<u>1618.36</u>
Grand total	101393.61	76315.05

Applicant reports assets and liabilities as of October 31, 1916, as follows:

Assets:

Fixed capital	\$202,459.26
Cash on hand	2,276.31
Accounts receivable, gas	3,830.97
Accounts receivable- misc.	303.32
Material and supplies	<u>1,603.33</u>

Total assets \$210,473.19

Liabilities:

Capital stock	\$100,000.00
Bonds	40,000.00
Accounts payable	479.75
Meter deposits	588.00
Interest accrued	414.69
Reserve for accrued depreciation	9,129.00
Corporate surplus	<u>59,861.75</u>

Total liabilities \$210,473.19

While the company reports its fixed capital at \$202,459.26, and a corporate surplus of \$59,861.75, the engineers for this Commission found the reproduction cost of the properties as above shown to be \$101,393.61 and the reproduction cost less depreciation \$76,315.05. The par value of the stock and bonds outstanding exceed the reproduction cost of the prop-

erties by the sum of \$38,606.39 and the reproduction cost less depreciation by the sum of \$63,684.95.

Applicant's earning statement for ten months ending October 31, 1916, and as analyzed and adjusted by us. is:

	<u>As reported</u>	<u>As adjusted</u>
Revenue from sale of gas	\$19,530.56	\$19,530.56
Operating expense-		
Production	9,751.94	8,251.94
Distribution expense	2,579.16	2,579.16
Commercial and general expense	2,108.15	2,108.15
Taxes	2,649.48	1,249.48
Insurance	166.12	166.12
Interest	1,745.00	2,000.00
Depreciation	---	1,700.00
Total ex-		
pense	18,999.85	18,054.85
Profit from operations	530.71	1,475.71

The estimated net earnings for the year/ 1916, based on above statement, and after making all deductions, including interest, is about \$2900.00.

Of the above \$9,751.94 production expense \$3600.00 represents cost of crude oil, under contract expiring December 22, 1916. Oil will probably cost more for next year. It appears possible, however, to introduce greater efficiency in manufacturing, which may be sufficient to offset the increased cost of oil. For instance the average amount of oil used to produce a thousand feet of gas prior to March, 1916, was about 18 gallons and after that date about 12½ gallons.

Mr. Jacobs testified in Case No. 945 that a suitable annual depreciation reserve roughly estimated was about \$2,000.00. The only provision for depreciation reserve by applicant is \$3325.34 charged in 1913 and \$5803.66 charged in 1915. A comparison of applicant's earnings for four years, the latter part of 1916 being estimated, shows \$6015.83, \$4586.70, \$3862.73 and about \$2900.00 for the years 1913, 1914, 1915 and 1916, respectively, after making all proper deductions, including interest and accounts reported uncollectible and proper provision

for depreciation.

Applicant has been charging the following schedule of rates:

<u>Quantity per month</u>	<u>Gross per 1000 ft.</u>	<u>Discount per 1000 ft.</u>	<u>Net per 1000 ft.</u>
600 to 5,000 cu. ft.	\$2.00	.25	1.75
5100 to 20,000 " "	2.00	.50	1.50
20100 cu. ft. and over	2.00	.75	1.25

Minimum charge per month per meter \$1.00.

Since the hearing in Case No. 945, applicant has filed the following schedule of rates:

<u>For gas used in any one month:</u>	<u>Gross per 1000</u>	<u>Discount per 1000</u>	<u>Net per 1000</u>
For the 1st 1000 cubic feet or less	\$1.70	\$.10	\$1.60
For the next 4000 cubic feet	1.60	.10	1.50
For the next 5000 cubic feet	1.45	.10	1.35
For the next 10000 cubic feet	1.35	.10	1.25
For the next 20000 cubic feet	1.10	.10	1.00
For all over 40000 cubic feet	.95	.10	.85

Minimum charge per month per meter \$1.00

It is evident that applicant can earn an adequate return if its production methods are improved, its consumers increased to 1000 or more, and its business efficiently managed and developed. Such development should be expected, in view of the business apparently in and about Hanford. In our judgment, immediate development of this fertile territory is essential to applicant's success.

Applicant reports that about 99% of its gas consumption is used for cooking purposes. Probably use for other purposes can be greatly increased. It plans to begin a vigorous campaign for new business. It hopes to develop 450 additional consumers reached by its present system within the year.

Applicant's proposed improvements consist in part of a high pressure bolt line encircling the town and running most of the way through productive territory, the whole estimated by it to cost \$28,564.14. It is proposed to connect the mains with the present system in such manner that the pressure will be reinforced, and the cause for complaint on that ground which was presented in the Cuttle case, No. 945, eliminated. Its plans and estimates of cost have been examined by the Commission's engineers and are considered by them reasonable.

We are satisfied that only through the medium of a better service resulting from the proposed improvements and procuring additional business, can applicant hope to increase its earnings in a satisfactory degree.

The unsatisfactory earnings shown by applicant it says have resulted because the owners of this property have devoted their energies to other properties in which they are interested. We are assured that they will now vigorously apply themselves to the interests of applicant. We expect them to do so. Our desire to see applicant earn satisfactory returns is due to our belief that a utility which is not successful usually cannot serve the public well. We confidently expect applicant to improve its system and service and

develop its business to a point which will prove satisfactory to its patrons, to the Commission, and to itself.

With that understanding we authorize applicant to mortgage its property and issue bonds under the conditions found in the order.

O R D E R.

HANFORD GAS & POWER COMPANY having applied to the Railroad Commission for authority to mortgage its property to secure the payment of seventy 6% 20 year first mortgage bonds of the face value of \$1000 each, and to issue said bonds at not less than 98% of their face value, and use \$40,000 of the proceeds thereof for the payment of its present bonded debt of \$40,000 and use the balance of said proceeds for the improvement of its facilities and service, and a public hearing having been held thereon and the Commission being of the opinion that the money to be procured by such issue is reasonably required for the purposes specified herein, which purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that Hanford Gas & Power Company be and it is hereby authorized to issue, under conditions hereinafter stated, its bonds of the face value of \$70,000, bearing interest at not exceeding 6% per annum, payable 20 years after their date, their payment to be secured by mortgage or deed of trust upon all of

applicant's plant and system used in the manufacture, distribution and sale of gas in and about Sanford, Kings County, said instrument to be in form approved by the Commission.

IT IS FURTHER ORDERED that said applicant be and it is hereby authorized to now issue \$50,000 face value of its said bonds, and from the proceeds of the sale thereof use \$40,000 for the payment of \$40,000 face value of bonds now outstanding, but only upon the surrender and cancelation of said bonds; and apply the remainder of said proceeds thereof toward the improvement of its facilities and service by installing the improvements shown in schedule attached hereto; and hereafter to issue \$20,000 face value of its said bonds upon supplemental orders hereafter to be entered from time to time, upon a showing satisfactory to the Commission, of progress in the construction of said improvements and in the procuring of new business, and use the proceeds thereof ^{for} installing said improvements.

The authority herein granted is upon the following conditions;

1. Applicant shall not mortgage its property or issue any bonds hereunder until the Commission has approved applicant's proposed mortgage or deed of trust securing payment of said bonds, such approval to be evidenced by supplemental order herein.

2. All bonds issued hereunder or under supplemental orders herein shall be sold at a price which will not to applicant not less than 98% of their face value.

3. The authority to issue the \$50,000 in bonds shall apply only to such bonds as may be issued within ninety (90) days after date of supplemental order approving applicant's mortgage or deed of trust. The time within which

other bonds may be issued hereunder will be governed by supplemental order.

4. Hanford Gas & Power Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the stock and bonds hereby and hereafter authorized to be issued; and on or before the twenty-fifth day of each month the company shall make verified reports to this Commission, stating the sale or sales of said stock and bonds during the preceding month, the terms and conditions of the sales, 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. Applicant shall file with the Commission from the time said bonds are sold until the improvements contemplated are completed monthly reports showing the progress of applicant's proposed construction and showing the new business procured by applicant during the preceding month.

6. The authority herein granted shall not be considered or treated in any proceeding before this Commission or any other tribunal as a finding by this Commission of the value of applicant's property for any purpose other than that of the present application.

7. The authority herein granted to issue bonds shall not become effective until the fees specified in the Public Utilities Act therefor be

paid.

Dated at San Francisco, California. this 29
day of December 1916.

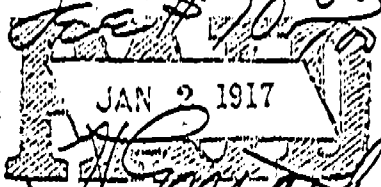
Max Thelen

Alex Gordon

Edwin C. Edgerton

Frank R. Gehlen
Commissioners.

Railroad Commission State of California



BY H. M. Benson
Assistant Secretary.

Zanford Gas & Power Company.

Schedule of betterments and additions.

20,000 feet of 2 inch high pressure mains.

4,450 feet 4 inch; 812 feet 3 inch; and 1115 feet 2 inch low pressure mains.

4 district governors, 4 manholes, 450 services, 450 meters, 400 regulators, 1 compressor, 1 compressor tank.

Miscellaneous betterments at work estimated to cost about \$4000.