

ORIGINAL

Decision No. 3997

BEFORE THE RAILROAD COMMISSION OF
THE STATE OF CALIFORNIA.

In the matter of the application)
of CENTRAL CALIFORNIA GAS COMPANY)
for an order authorizing the is-)
sue of bonds of the face value of)
\$19,000; preferred stock of the)
par value of \$67,000; and common)
stock of the par value of \$21,500.)

Application

No. 2337

C. S. S. Forney for applicant.
Crittenden and Simmons for Chas.
F. Leegs and J. Molgaard, stock-
holders of applicant, protestants.

BY THE COMMISSION.

SUPPLEMENTAL OPINION

On October 10, 1916, (Decision No. 3777)
this Commission issued its Second Supplemental Or-
der in the matter herein, authorizing Central Cali-
fornia Gas Company to issue and sell \$87,500. par
value of its seven per cent prior preferred stock
and to use the proceeds for purposes therein speci-
fied. Thereafter, on October 20, 1916, the

protestants herein, Charles F. Loege and J. Molgaard, as stockholders of Central California Gas Company, petitioned this Commission for a rehearing upon Application No. 2337 and requested further that this Commission make an order suspending its Second Supplemental Order (Decision No. 3777), in which Central California Gas Company had been authorized to issue \$87,500 par value of its seven per cent. prior preferred stock.

In the proceedings under the application herein, Central California Gas Company has been authorized to issue, and has issued, \$7,000 face value of its six per cent. bonds, the order of the Commission having specified that the proceeds from the sale thereof should be used to reimburse applicant's treasury and thereafter devoted solely to the payment then due of the interest on applicant's outstanding bonds. In these proceedings the applicant has also been authorized to issue certain shares of its six per cent. preferred and common stock, all of which authorizations, however, were superseded by the order of October 10, 1916 (Decision No. 3777), in which the applicant was authorized to issue the \$87,500 par value of its seven per cent. prior preferred stock.

Upon the showing of protestants this Commission, on November 2, 1916, issued an order suspending its Second Supplemental Order theretofore made in this proceeding and directed that a further

hearing be held.

Subsequently, on November 20, 1916, Central California Gas Company filed its Fourth Supplemental Application in this matter, asking authority to issue \$50,000 of six per cent. notes and to pledge as security therefor \$50,000 par value of its seven per cent. prior, preferred stock.

Hearings have been held at which the applicants and protestants and the Commission presented detailed information relating to the affairs of this applicant.

The authority given in connection with this application for the issue of stock applied, as specified in the Commission's orders, to such stock as should be issued on or before December 31, 1916. As no stock has been issued under said orders, they have automatically lapsed. We have before us, therefore for consideration the Supplemental Application of Central California Gas Company to issue \$87,500 par value of its seven per cent. prior preferred stock and its subsequent application to issue \$50,000 of six per cent. notes and to pledge \$50,000 par value of preferred stock as collateral therefor.

The applicant proposes to issue its stock or notes for the purpose of meeting its sinking fund requirements in the sum of \$12,000 to pay its notes and accounts payable in the sum of \$29,000 and to provide for additions and betterments to its system in the sum of \$46,590.95.

At the hearing upon this matter it developed from the report presented by Mr. L.R. Reynolds, Auditor of the Commission, that the applicant's books of account for the period from January 1, 1916, to October 31, 1916, had been so kept as to reflect a false instead of a true statement of the applicant's financial condition. The report showed that the books were kept to show a profit in excess of that actually earned amounting to \$12,693.68; that amounts had been charged to contingent reserve which were properly chargeable to operation; that the surplus account had been misstated, and that the records disclosed persistent discrepancies and irregularities. Mr. Reynolds also reported that the applicant had made no provision for setting aside a proper depreciation reserve and, in fact, that it had undertaken to deplete the meager reserve which had been provided.

This report of Mr. Reynolds' disclosed also that Mr. Forney, President of this applicant, had taken from the company's funds \$4,926.05, which he had charged to himself on open account; that \$4,200 of this amount had been received by him since January 1, 1916; and that in many transactions Mr. Forney had so blended his personal account with company affairs that no satisfactory explanation was obtainable from the books of the company.

Mr. Richard Sachse, Chief Engineer of the Railroad Commission, submitted a report on the value of the properties of the Central California Gas Company, which confirms the report of Mr. Reynolds as to the failure of this applicant to provide adequate depreciation reserves. It appears that the applicant has incurred unnecessary expense in the conduct of the business.

Under the circumstances as herein shown, we are unwilling to recommend that the applicant issue stock or notes as requested in the applications now before us. We believe that the money borrowed from this applicant by any of its officials should be forthwith returned and unnecessary expenses discontinued. It will be necessary also for the applicant to provide additional means through the medium of an assessment to take care of its sinking fund, ^{and} to pay its pressing obligations. For this purpose it will be necessary for the applicant to raise, in the manner here indicated, that is, through the return of funds and by means of an assessment, a sufficient amount to pay its sinking fund to the amount of \$12,000, its notes amounting to \$29,000 and the interest now due on its outstanding bonds approximately \$8,000, or a total of \$49,000.

Thereafter the applicant may be authorized by supplemental order to issue 7% prior preferred stock to provide funds to pay for the needed additions and betterments amounting to \$46,590.95. I believe, however, that this applicant should not be permitted to sell any of this prior preferred stock until it shall have adjusted its accounts to the satisfaction of this Commission; shall have secured the return of the money due from its officers; and shall have presented evidence satisfactory to this Commission that it has discharged its outstanding

notes and indebtedness payable; that it has paid the interest now due and has made good the deficiency in its sinking fund.

We recommend that applicant be authorized to issue 7% prior preferred stock, subject to the conditions of the following order:

O R D E R .

CENTRAL CALIFORNIA GAS COMPANY having made application to this Commission, as set forth in the foregoing opinion, and a hearing having been held and it appearing that the purposes for which the applicant herein is authorized to issue said prior preferred stock are not in whole or in part chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that Central California Gas Company be granted authority and it is hereby granted authority to issue and sell \$46,000 par value of its 7% prior preferred stock. The authority herein given is given upon the following conditions and not otherwise:

1. Before any of the stock herein authorized to be issued shall be issued the applicant shall assess its stock now outstanding and shall collect the moneys due from any of its officers, and from the funds thus received shall pay the interest now due on its outstanding bonds; shall pay the sum of \$12,000 or \$12,000 face value of its outstanding bonds into its sinking fund to make good the deficiency in said sinking fund; and shall discharge its notes payable and indebtedness in the sum of \$29,000.

2. None of the stock herein authorized to be issued shall be issued until this Commission shall have issued a supplemental order setting forth the terms and conditions of said issue and finding as follows:

(a) That the applicant has presented satisfactory proof that it has performed all of the acts set forth under Condition #1 of the Order herein.

(b) That the applicant has adjusted its books of account to the satisfaction of this Commission.

As to all other matters involved in this application and the applications supplemental thereto, they are hereby dismissed.

Dated at San Francisco, California, this 10th day of January, 1917.

Man Ihele
H. H. Howard
Alfred Gordon

Frank R. Dechri
Commissioners.