Decision No. 401

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

---ooo---

ORIGINAL

Decision No. 401

In the Matter of the Application of the IMPERIAL VALLEY GAS COMPANY for an order authorizing the issue and sale of bonds.	:	Application No. 164.

W. F. Holt for Applicant.

THELEN, Commissioner.

O P I N I O N

This is an application for authority to issue bonds. The original application asked for authority to issue bonds of the face value of $200,000.00, bearing interest at the rate of six (6%) per cent per annum, the dates of maturity of the bonds ranging from January 1, 1937 to and including January 1, 1956, the bonds to be issued in denominations of $1000 and $500 each. At the hearing, the amount asked for was reduced to $154,500.00.

Applicant was incorporated on October 27, 1908, with an authorized capital stock of $500,000.00, all common, all of which has been issued. Applicant has heretofore issued and sold its first mortgage 6% bonds of the face value of $100,000.00 maturing serially from January 1, 1920 to and including January 1, 1939, ten bonds maturing on the first day of January of each of said years. From the sale of said bonds, supplemented by the use of a portion of said stock as bonus, applicant derived the sum of $100,000.00 which is the amount of money which has gone into its plant. Applicant does not claim consideration for its capital stock in any rate fixing inquiry.

Applicant has constructed a gas generating plant in the town of El Centro, in Imperial County and a distributing system in portions of the towns of El Centro and Imperial, which systems are

connected by a transmission main. On November 1, 1912, applicant was serving 285 customers in El Centro and 140 in Imperial at an average revenue per customer per month of about $4.00. For the year ending December 31, 1911, the total gross revenue was $12,291.29 and the gross expenses, including $6,000.00 interest on bonds but not including depreciation $17,382.58, leaving a deficit, not counting depreciation, of $5,091.29 for the year.

Applicant desires now to construct a main from Imperial to Brawley, and a distributing system in Brawley; a main from El Centro to Calexico and a distributing system in Calexico and Heber; a main from El Centro to Holtville and a distributing system in Holtville; extensions to its distributing systems in El Centro and Imperial; and an extension to its plant in El Centro. Applicant's estimate for this work, to run from October 1, 1912, to May 1, 1914, is as follows:

Main from Imperial to Brawley	43460' @ 26¢	$11299.60	
10 Ditch Crossings @ $21.50		215.00	$11,514.60
Main from El Centro to Calexico	55760' @ 26¢	$14497.60	
12 Ditch Crossings @ $21.50		255.00	$14,752.60
Main from El Centro to Holtville	54420' @ 26¢	$14149.20	
10 Ditch Crossings @ $21.50		215.00	$14,364.20
Extensions El Centro 75% of	$18,158.95		$13,619.19
Extensions Imperial 75% of	$ 7,092.50		$ 5,319.37
Distributing System Brawley 75% of	$12,943.25		$ 9,707.43
Distributing System Calexico 75% of	$10,947.72		$ 8,210.79
Distributing System Heber 75% of	$ 4,426.75		$ 3,320.07
Distributing System Holtville 75% of	$ 9,297.90		$ 6,973.43
300 Services in El Centro @ $10.41			$ 3,123.00
150 Services in Imperial @ " "			$ 1,561.50
200 Services in Brawley @ " "			$ 2,082.00
150 Services in Calexico @ " "			$ 1,561.50
30 Services in Heber @ " "			$ 312.30
150 Services in Holtville @ " "			$ 1,561.50
550 Regulators El Centro @ $3.88 Installed			$ 2,134.00
300 Regulators Imperial @ " " "			$ 1,164.00
200 Regulators Brawley @ " " "			$ 776.00
150 Regulators Calexico @ " " "			$ 582.00
30 Regulators Heber @ " " "			$ 116.40
150 Regulators Holtville @ " " "			$ 582.00
100 3-Light Prepay Meters @ $12.03 "			$ 1,203.00

80 5-Light Meters	@ 8.55 Installed		$ 684.00
800 3-Light Meters	@ 7.44 "		$5,952.00
1 Purifier including foundation			$1,380.00
Changes and additions to Purifier and Holder connections			$ 350.00
Gas Compresser Tank erected			$ 600.00
Motor and Gas Compressor			$1,300.00
Additional Seal and Scrubber erected			$ 850.00
Water Cooling Tower			$ 500.00
Concrete Lamp Black Separator and Water Storage			$1,100.00
Circulating Pump and Motor			$ 375.00
			$117,631.88

Applicant desires also to refund a note in the amount of $5,000.00, dated January 19, 1910, running to First National Bank of El Centro, and to meet certain vouchers payable, amounting to $1,066.60, as specified in letter from the company to this Commission, dated November 26, 1912, and on file in this proceeding. The moneys derived from the note were paid to Holton Power Company to reimburse said company for moneys expended by it for applicant on labor and machine trenching in the construction of pipe lines from El Centro to Imperial and in the town of Imperial. The vouchers payable represent materials purchased and used for permanent improvements.

The total amount of money which applicant desires to secure is thus $123,698.48. To secure this money, applicant desires to sell said bonds of the face value of $154,500.00 at a sum so as to net 80% of par after the payment of discount and expenses. Mr. Holt testified that he had made no contract with any bonding house for the disposition of the bonds and that it would be necessary to sell them without the help of a bond house. I am of the opinion that the bonds are worth more than 80, but recommend an authorization to sell at a minimum net price of 80, with the understanding that applicant will use its best endeavors to secure a higher price.

I made careful inquiry into the probability of applicant's being able to make a net profit sufficiently large to enable it to pay interest on the new bonds now asked for and eventually to retire them. As already stated, applicant's business, with a

present list of customers of 425, has hitherto been conducted at a loss which for the calendar year 1911 amounted to $5,091.29. Applicant expects, however, with the increased revenue and comparatively small additional operating expenses to accrue from its increased business, to convert this deficit into a handsome profit. Applicant estimates that as the result of its improvements and extensions it will have at the end of fifteen months from date an increased number of customers as follows:

El Centro	250
Imperial	150
Brawley	200
Calexico	150
Heber	30
Holtville	150
	930

These estimates are based largely on the number of water services now in these towns and the proportion which the gas services now installed by applicant in El Centro and Imperial bear to the water services in the same territory. 159 contracts have already been signed in Brawley. These services, if the present revenue per service is maintained, would yield an additional revenue of $44,645. per annum. While expressing no opinion as to the correctness of these figures, I desire to draw attention to the remarkable growth of the territory which it is proposed to serve and to the unusually good field for gas in this territory. The growth in the number of consumers of water in the towns affected, as between 1911 and 1912, was as follows, in percentages: Brawley 22.4%; Calexico 22.2%; El Centro 41.2%; Holtville 39.1%; Imperial 14.7%. During the same period, the increase in percentages in the number of consumers of electricity was as follows: Brawley 49.5%; Calexico 55.6%; El Centro 41.2%; Holtville 38.1%; Imperial 30.7%. By reason of the heat during the summer time and the lack of fuel, gas heating is almost a necessity for this territory, with the result that the percentage of consumers to the population is

unusually large. No other company furnishes gas in Imperial County. I am satisfied that there is a reasonable prospect for a material betterment in applicant's financial condition and for the payment of the interest on the bonds and their redemption at maturity if the application is granted.

If the bonds net only 80 cents on the dollar, an additional face value of $154,500. of bonds will be outstanding as against an increased property of only $123,600.00, leaving a margin of some $30,900. of bonds over property out of this transaction. I find, however, that the value of the existing property is considerably in excess of the present outstanding indebtedness. The applicant owns real estate and rights of way which were presented to it by affiliated corporations, which have a value of perhaps $20,000. Applicant is also entitled to certain additional credits, including salaries which were not charged during the construction period. As against these credits, should be charged depreciation. After considering all the facts of the case, I am of the opinion that the Commission may safely authorize the reduced amount of bonds now applied for, provided that the existing property be increased by the sum of $10,000. in addition to the proceeds of the bonds. Applicant has agreed to defer the payment of dividends until this amount of money has been added to capital account from net profits and I recommend that this arrangement be made. Provision should also be made year by year during the life of the bonds, for amortizing the bond discount and the expenses, if any, of their sale.

At the time the towns affected by this application were platted and the plats accepted by the board of supervisors, the plats had attached thereto as a condition the reservation of the right to lay, maintain and operate gas pipes in the streets. These rights, such as they are, are now vested in applicant. Applicant has applied to the board of supervisors of Imperial

County for a franchise permitting it to lay its mains and pipes under the public roads and highways of the county. The franchise was passed, but a petition calling for a referendum vote has been presented to the board of supervisors. Applicant claims that it has a private right of way to the new towns in which it is now proposed to establish distributing systems and that if the franchise is not ultimately secured it can lay its mains along this private right of way, securing permission from the board of supervisors to cross the particular highways affected. Before the bonds are issued, applicant should satisfy the Commission of the alternative route which it has selected and that it may lawfully use such route and such satisfaction should be made a condition to the order.

I find that the moneys which are to be secured from the sale of the bonds applied for are not properly chargeable to operating expenses or to income and submit herewith the following form of order.

O R D E R.

IMPERIAL VALLEY GAS COMPANY having applied to the Railroad Commission of the State of California for the consent of the Commission to the issuance by said Company of bonds to the amount of $200,000, face value, which amount was reduced at the hearing to $154,500, face value, said bonds to be payable serially on the 1st day of January, 1937, and on each first day of January thereafter up to and including the 1st day of January, 1956, and to bear interest at six per cent per annum, payable semi-annually, and secured by a mortgage or deed of trust upon all the property of the Company, and a public hearing having been held upon said application and the Commission finding that the money to be procured by the issue of said bonds is necessary to and reasonably required by said Company for the acquisition of property, the construction, completion and extension of

facilities and the discharge or lawful refunding of obligations as will hereinafter appear in greater detail, and that said purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED, that the Railroad Commission of the State of California hereby authorizes the issue by said Imperial Valley Gas Company of $154,500, face value, of principal of said bonds, maturing serially on the first day of January, 1937 and on the first day of January of each year thereafter up to and including the first day of January, 1956, to bear interest at the rate of six per cent per annum, payable semi-annually, under and in pursuance of the terms of a deed of trust or mortgage to be executed by said Imperial Valley Gas Company to the Southern Trust Company, a corporation, substantially in the form attached as "Exhibit D" to the application, which mortgage or deed of trust applicant is hereby authorized to execute, all upon the following conditions and not otherwise:

(1) Imperial Valley Gas Company shall sell the bonds hereby authorized to net said company not less than 80 per cent of the par value of the principal thereof, besides accrued interest thereon.

(2) The proceeds from the sale of said bonds shall be applied solely to the following purposes:

(a) For the purpose of acquiring property and of constructing, completing, extending and improving applicant's facilities for the items hereinbefore in the opinion specified, an amount not to exceed the sum of ----------$117,631.88

(b) For the purpose of refunding note dated January 19, 1910, running to the First National Bank of El Centro, not to exceed the amount of ----------$ 5,000.00

(c) For the purpose of meeting certain vouchers payable as specified in letter from applicant to this Commission dated November 26, 1912, not to exceed the amount of------$ 1,066.60

(3) Applicant shall not pay any dividends on its stock until the amount of $10,000 shall have been set aside from profits and invested in items properly capitalizable.

(4) Before the bonds hereby authorized may issue, applicant shall first have filed with this Commission evidence satisfactory to the Commission to the effect that it has the lawful authority to lay its mains to carry on the extensions specified in the application.

(5) All discounts, commissions and expenses in connection with the approval, issuance and sale of said bonds authorized to be issued under this order not to exceed the amount of $30,900, shall be amortized out of the income of the applicant before the first day of January, 1956, by the payment of annual installments, under a plan to be submitted by applicant to the Commission and approved by the Commission.

(6) Said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds hereby authorized to be issued, and on or before the 25th day of each month, the company shall make verified reports to the Commission, stating the sale or sales of said bonds during the preceding month, the terms and conditions of 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.

(7) The authority hereby given to issue such bonds shall apply only to bonds issued by said company on or before the 30th day of June, 1914.

The foregoing opinion and order are hereby approved

and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 8th day of January, 1913.

H. D. Loveland

Alex Gordon

Max Thelen

Edwin O. Edgerton

Commissioners.