

Decision No. _____

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application)
 of SOUTHERN COUNTIES GAS COMPANY)
 OF CALIFORNIA for authority to) Application No. 2974.
 issue and sell additional bonds in)
 the amount of \$364,000.00.)

Hunsaker & Britt and LeRoy M. Edwards,
 by G. Harold Janeway, for applicant.

LOVELAND, Commissioner.

FIRST SUPPLEMENTAL OPINION.

In its Supplemental Application filed July 23, 1917, as amended, Southern Counties Gas Company of California asks authority to issue and sell at not less than 90 per cent of face value and accrued interest, \$83,000.00 of First Mortgage Twenty-year Five and One-Half Per Cent Bonds, due and payable May 1, 1936, the proceeds to be used to reimburse applicant's treasury and pay outstanding notes and accounts payable.

In lieu of selling the bonds, applicant asks for alternative authority to pledge the same as collateral to secure the payment of notes.

By Decision Number 4430, dated June 26, 1917, Southern Counties Gas Company of California was authorized to issue \$364,000.00 of its First Mortgage Bonds to finance 80 per cent of its proposed capital expenditures for the year ending March 31, 1918. The order

in the decision provided that \$40,000.00 of said bonds might be issued immediately and that the balance should only be issued upon supplemental orders from this Commission.

In Exhibit "A" attached to the Supplemental Application applicant reports that during the months of May and June, 1917, it expended for permanent extensions, betterments and improvements to its existing plants and property, the sum of \$103,598.12, and that under the provisions of its trust deed, it is entitled to issue bonds for 80 per cent. of this amount or \$82,878.50. It further represents that it has a balance on hand against which bonds have not been issued of \$316.78, making a total amount against which bonds may be issued at the present time of \$83,195.28.

On August 11, 1917, applicant filed with the Commission a segregation of its notes and accounts payable. Out of a total of \$390,880.74 applicant reports that \$287,780.15 represents in its entirety capital expenditures, whereas \$103,100.59 represents in part capital and in part operating expenses. For the purpose of identification and reference the schedule of indebtedness representing in its entirety capital expenditures has been marked Exhibit No. 4 First Supplemental Application No. 2974; and the schedule of indebtedness representing part capital and part operating expenses, has been marked Exhibit No. 5 First Supplemental Application No. 2974.

All of the proceeds of the bonds will be used by applicant to pay notes and accounts payable. I believe that a part should be directly so applied, while a part may be used to reimburse the treasury and thereafter used to pay indebtedness.

From the reports received from this Company, it is evident that its plant is kept in good condition, the company having reported from time to time, the expenditures of large sums of money for replacements and upkeep. To the present time the company has made no provision for a reserve for accrued depreciation. While a part of the sums expended for upkeep and replacement, may be properly chargeable

to depreciation, and the amount set aside for a reserve for accrued depreciation diminished proportionately, nevertheless I am of the opinion that such a reserve should be established and the company has agreed to establish the same on January 1, 1918, and make proper provision for depreciation thereafter. The amount of such reserve and the method of establishing it, may be taken care of by a subsequent order of the Commission. The postponement of the establishment of a reserve for accrued depreciation, is recommended to the Commission upon the specific understanding which I have had with this company, that no dividends will be paid until provision for depreciation, satisfactory to this Commission has been made.

In the Supplemental Application as originally filed, applicant asked authority to issue and sell the \$83,000.00 of bonds at not less than 92½ per cent. of their face value plus accrued interest. At the hearing, because of the unsettled condition of the bond market, applicant amended its application and now asks authority to sell the bonds at not less than 90 per cent. of their face value plus accrued interest or to pledge the same to secure the payment of notes at such ratio that the face value of the notes shall never be less than 75 per cent. of the bonds pledged to secure the payment of same. I have given this matter careful consideration and am not inclined at this time to recommend that application be granted authority to pledge its bonds. I believe that an earnest effort should be made to sell the bonds. If applicant should fail in such effort, it may again apply to the Commission for authority to pledge the bonds. I am of the opinion that because of present conditions applicant should be authorized to sell the bonds at not less than 90 per cent of their face value plus accrued interest.

I herewith submit the following form of Order:-

SECOND SUPPLEMENTAL ORDER

SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA Having applied to the Railroad Commission for authority to issue and sell or

pledge \$83,000.00 face value of its First Mortgage Twenty-Year Five and one-half per cent bonds, due and payable May 1, 1936; and a public hearing having been held and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required for the purpose or purposes specified in the order, and that such purpose or purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

IT IS HEREBY ORDERED that Southern Counties Gas Company of California be, and it is hereby, authorized to issue and sell \$83,000.00 face value of its First Mortgage Twenty-Year five and one-half per cent. bonds due and payable May 1, 1936.

IT IS HEREBY FURTHER ORDERED that the application of Southern Counties Gas Company of California for alternative authority to pledge the \$83,000.00 of bonds hereby authorized to be issued as collateral security for notes be and the same is hereby denied without prejudice.

The authority hereby granted applicant to issue and sell bonds is granted upon the following conditions and not otherwise:-

1.-The bonds hereby authorized to be issued shall be sold so as to net applicant not less than 90 per cent of their face value in cash, plus accrued interest.

2.-The proceeds from \$38,000.00 face value of bonds hereby authorized to be issued shall be used to pay notes and accounts payable, listed in Exhibit No. 4, First Supplemental Application No. 2974.

3.-The proceeds from \$45,000.00 face value of bonds shall be used to reimburse applicant's treasury for surplus earnings expended for capital purposes, and after such reimbursement shall be used to pay notes and accounts payable listed in Exhibit No. 4, First Supplemental Application No. 2974, or in Exhibit No. 5, First Supplemental Application No. 2974.

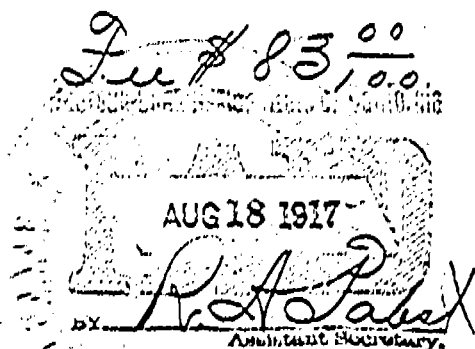
4.-Southern Counties Gas Company of California shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds herein authorized to be issued; and on or before the twenty-fifth day of each month the company shall make verified reports to the Railroad 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 authority hereby granted to issue bonds shall not become effective until Southern Counties Gas Company of California has paid the fee prescribed by the Public Utilities Act.

6.-The authority hereby granted to Southern Counties Gas Company of California to issue bonds shall apply only to such bonds as shall have been issued on or before November 30, 1917.

The foregoing First Supplemental Opinion and Second Supplemental Order are hereby approved and ordered filed as the First Supplemental Opinion and Second Supplemental Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 15th day of August, 1917.



Max Theiler
H. B. Rouland
Edwin C. Edgerton
Commissioners.