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Decision No. 4918

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BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SOUTHERN COUNTIES GAS COMPANY)
OF CALIFORNIA for an order authoriz-)
ing the issuance of debentures and)
the execution of an agreement se-)
curing the same.)

Application No. 3340.

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

LOVELAND, Commissioner.

O P I N I O N

In this application Southern Counties Gas Company of California asks authority to execute an agreement under which it desires to issue \$400,000.00 of 10-year 6 per cent debentures; to sell said debentures at not less than 90 per cent of their face value and to pledge the same to secure a loan. The proceeds realized either from the sale or pledging of debentures applicant desires to use to refund its notes and accounts payable and provide for working capital.

Applicant reports assets and liabilities as of October 31, 1917 as follows:-

ASSETS:

Capital Assets:

Intangible Capital:

Organization Rights and Franchises \$ 36,251.82
Franchises since February 1, 1916 1,335.85

Total Intangible Capital \$ 37,587.67

Tangible Capital:

Baehr's Inventory 2/1/1916 \$3,121,774.27
Additions since 820,095.39
Olinda-Brea line 7,862.23

Total Tangible Capital \$3,949,731.89

Total Fixed Capital \$3,987,319.56

Current Assets:

Materials and Supplies \$ 193,393.13
Accounts Receivable 100,561.30
Deposits with municipalities 1,825.64
Cash on hand and in bank 34,887.72

Total Current Assets \$ 330,667.79

Deferred Charges:

Discount on stock \$ 758,505.76
Unamortized discount on bonds 125,989.42
Reorganization expenses 21,717.80
Taxes, insurance, etc 45,678.79

Total Deferred Charges \$ 951,891.77

Total Assets \$5,269,879.12

LIABILITIES:

Capital Stock - Common \$1,500,000.00

Funded Debt:-

First Mortgage 5½ per cent bonds 3,015,000.00

Current Liabilities:-

Notes Payable 142,111.87
Accounts Payable 361,846.49
Consumer's deposits 44,283.18
Interest accrued 1,623.58
Insurance accrued 1,300.00

Total Current Liabilities \$ 551,165.12

Reserves:

Reserve for Inventory 5,499.92
Reserve for contingencies 14,627.22
Total Reserves \$ 20,127.14

Surplus:

Capital Surplus - appreciation property values 79,618.68
Earned surplus 103,968.18

Total Liabilities \$5,269,879.12

Applicant reports that between October 31, 1917 and November 20, 1917, it paid \$57,447.37 of its accounts payable; that on the latter date it owed in the form of notes \$144,611.87 and \$303,736.06 of accounts payable, making a total current indebtedness of \$448,347.93.

By Decision Number 4880, dated November 26, 1917 the Commission authorized applicant herein to issue \$79,000.00 of its first mortgage $5\frac{1}{2}$ per cent bonds at not less than 85 per cent of their face value, plus accrued interest. The order of the Commission provides that the proceeds from the bonds shall be used to pay notes and accounts payable. Assuming that applicant is able to sell the bonds it will be in a position to reduce its notes and accounts payable from \$448,347.93 to approximately \$381,000.00. It is for the purpose of paying and refunding this indebtedness that applicant desires to issue \$400,000.00 of its 10-year 6 per cent debentures.

Applicant's relatively large current indebtedness appears to be due primarily to the rapid growth of its business; to the failure to foresee or at least to adequately provide for the financing of the growth of its business at the time when the company was refinanced in 1916; to the acquisition of a large stock of materials and supplies; to discount on securities issued and to the restriction in applicant's deed of trust limiting the issue of bonds to an amount equal to 80 per cent of the cost of improvements. The trust deed restriction I regard as proper and in the interest of the investor but of necessity it implies that provision must be made to finance capital expenditures against which no bonds may be issued.

On October 31, 1917 applicant reported materials and supplies on hand representing a cost of \$193,393.17. The

testimony shows that the company has purchased a large stock of materials and supplies in anticipation of an increase in price and that under normal conditions it will be able to properly take care of its business by keeping \$150,000.00 of materials and supplies in stock. By the issue of the 10-year debentures and the use of the proceeds to pay notes and accounts payable, applicant, for all practical purposes, will pay for its materials and supplies on hand. By paying the notes and accounts payable representing materials and supplies, applicant is providing itself with working capital. If it hereafter develops that applicant will reduce its material and supply account, then the amount by which such account is reduced should be expended to redeem debentures or used to pay for capital expenditures against which no bonds can be issued under applicant's deed of trust.

By Decision Number 4439, dated July 3, 1917, the Railroad Commission authorized applicant herein to issue \$400,000.00 of debentures. It now reports that it has been unable to sell the debentures in accordance with the terms and conditions of the order in Decision Number 4439.

Applicant asks the Commission to waive the requirement of setting up a depreciation reserve until a later date. The officials of the company recognize that depreciation is occurring but contend that it is inadvisable for the company to establish, at this time, a reserve for accrued depreciation. Applicant alleges that from June 1, 1916 to October 31, 1917, it has expended for repairs the sum of \$86,606.41, and that a substantial part of \$86,606.41 represents expenditures which could have been made out of the depreciation reserve. I am inclined to accept applicant's allegations and find that the Engineering Department and Stock and Bond Department of the Commission agree with my opinion.

Under the facts of this case and because of the present abnormal conditions, I am willing to recommend that unless applicant's earnings during 1918 show a material increase, it will not be necessary for it to set up a reserve for accrued depreciation. This recommendation should not be interpreted as a waiver of the requirement to set up a depreciation but merely a postponement of the time when such a reserve should be set up. Moreover, the recommendation is made to the Commission with the understanding that applicant will stipulate that it will pay no dividend on its outstanding stock until it has made proper provision for depreciation.

As said, if applicant is unable to sell its debentures, it desires authority to pledge the same to secure the payment of a two or three year note issue, the proceeds of which will be used to pay current indebtedness. It is evident from the testimony that applicant has not worked out the detail relative to the pledging of the debentures. If it is unable to sell them and hereafter furnishes the Commission with the necessary detail, I will be glad to give this matter further consideration.

The agreement under which the debentures are to be issued is to be substantially in the same form as the agreement attached to Application Number 2974 and marked Exhibit "B". The debentures which applicant proposes to issue do not constitute a lien upon any property. They are in effect 10-year 6 per cent promissory notes to be issued under the terms and conditions of a proposed debenture agreement to be executed to Central Trust Company of Illinois.

I herewith submit the following form of Order:-

O R D E R

SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA having applied to the Railroad Commission for authority to issue \$400,000.00 of 10-year 6 per cent debentures and for authority to execute a debenture agreement,

And a public hearing having been held, and

it appearing to the Railroad Commission that the money, property or labor to be procured or paid for by the issue of the debentures is reasonably required for the purpose or purposes specified in the order and that the expenditures for 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 execute to Central Trust Company of Illinois a debenture agreement substantially in the same form as the agreement marked "Exhibit B" and attached to Application Number 2974.

IT IS HEREBY FURTHER ORDERED that Southern Counties Gas Company of California be, and it is hereby, authorized to issue \$400,000.00 of its 10-year 6 per cent debentures upon the following conditions and not otherwise:

- 1.- Applicant shall realize in cash from the sale of debentures not less than 90 per cent of their face value plus accrued interest.
- 2.-- Before this order shall become effective, Southern Counties Gas Company of California shall file with the Railroad Commission a duly authorized stipulation in form satisfactory to the Railroad Commission in which it agrees that it will not declare any dividend on its outstanding capital stock until it has transferred to a reserve for accrued depreciation at least \$50,000.00 of its earned surplus and thereafter unless otherwise ordered by the Commission apply annually not less than \$50,000.00 of its earnings to depreciation.
- 3.-- The proceeds from the sale of \$325,000.00 face value of debentures shall be used by applicant to pay or refund the notes and accounts payable set forth in "Exhibit 1" Third Supplemental Application Number 2974.

4.-The proceeds from the sale of ~~the~~ of \$75,000.00 face value of debentures shall be used by applicant to reimburse its treasury for income expended for capital purposes and after such reimbursement to be used to pay notes and accounts payable listed in Exhibit "2", Third Supplemental Application Number 2974, or notes and accounts payable listed in Exhibit "1" Third Supplemental Application Number 2974.

5.-On or before the twenty-fifth day of each month, applicant shall file with the Commission a statement showing by districts the cost of materials, supplies and merchandise on hand at the close of the preceding month, and be prepared when called upon to furnish the Commission with an inventory of said materials, supplies and merchandise.

6.-The approval herein given of said debenture agreement 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 debenture agreement as to such other legal requirements to which said debenture agreement may be subject.

7.-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 debentures 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 debentures during the preceding month, the terms and

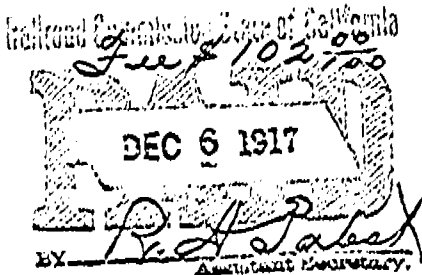
conditions of the sale, the moneys realized therefrom, and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

8.—The authority hereby granted to issue debentures shall not become effective until applicant has paid the fee prescribed by the Public Utilities Act.

9.—The authority hereby granted to issue debentures shall apply only to such debentures as may be issued on or before June 30, 1918.

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 4th day of December, 1917.



Max Helen
H. D. Howard
Edwin O. Colquhoun
Frank R. DeWitt

Commissioners.