

Decision No. 6027.

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	)	Application No. 4270.
for authority to issue and sell additional	)	
bonds in the amount of \$629,000.	)	

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Hunsaker, Britt & Edwards, by LeRoy M. Edwards,  
for applicant.

LOVELAND, Commissioner.

O P I N I O N .

SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA asks authority to issue \$629,000 of its 5½ per cent first mortgage bonds payable May 1, 1936.

The company reports expenditures incurred, or to be incurred, for the installation of extensions and betterments and the acquisition of properties, against which it has issued no bonds, as follows:

Expenditures incurred to November 30, 1919, (Exhibit "D"),.....	\$451,448.26
Expenditures to be incurred for the purchase of the Ontario-Upland Gas Company properties,.....	135,000.00
Improvements to Ontario-Upland properties,.....	8,107.71
Expenditures to be incurred for the installa- tion of extensions and betterments for 13 months ending December 30, 1919, (Exhibit "D"),.....	<u>200,000.00</u>
	\$794,555.97

Under its deed of trust, applicant may issue bonds in an amount equal to 80 per cent of the actual and reasonable cash

expenditures made after May 1, 1916 for permanent extensions, enlargements and additions of and to its plant and properties. The deed of trust further provides that the trustee shall not certify any additional bonds unless the net earnings of the company, for the year preceding the date of the request for the certification of bonds, available to pay bond interest, are in excess of one and a half times the interest on the bonds then outstanding plus the interest on the bonds to be certified. Applicant reports that its expenditures and its net earnings have been or will be such as warrant the issue of \$629,000 of bonds under its deed of trust.

In Exhibit "B", applicant reports that from November 1, 1917 to November 30, 1918, it has expended on capital account \$451,241.95. This amount is distributed amongst the various districts as follows:

General, . . . . .	\$19,836.66
Orange County District, . . . . .	34,126.07
Whittier District, . . . . .	47,443.26
Pomona District, . . . . .	23,989.52
Monrovia District, . . . . .	14,962.66
Long Beach District, . . . . .	295,773.13
Santa Monica Bay District, . . . . .	15,110.65
Total, . . . . .	<u>451,241.95</u>
Add Expenditures prior to November 1, 1917, against which no bonds have been issued, . . . . .	206.31
Total, . . . . .	<u>451,448.26.</u>

In Exhibit "2", applicant reports that approximately 66 per cent of \$451,448.26 has been caused by the necessity to furnish gas for war work directly or indirectly. By far, the largest expenditures have been incurred in connection with the extension of the company's transmission and distribution system in Long Beach, San Pedro and vicinity.

Applicant has agreed to purchase the properties of the Ontario-Upland Gas Company, a matter which is more fully discussed in the decision relating to Applications No. 2972 and No. 2973, for the sum of \$135,000. To pay in part for these properties, it

intends to issue \$108,000 of bonds.

For the 13 months ending December 31, 1919, applicant estimates that it will have to expend for the extension of its system and to take care of the normal growth of its business, the sum of \$200,000. To finance part of these expenditures, it asks permission to issue \$160,000 of bonds.

As said, applicant asks permission to issue bonds in the amount of \$629,000. It has arranged for the sale of \$469,000 of these bonds at 82. The record shows that the company has been unsuccessful in obtaining a more favorable price. A proper proportion of the discount on the bonds should and must be amortized annually. The minimum selling price on the remaining \$160,000 of bonds will not be determined by the Commission at this time. It is the intention of ~~the~~ applicant from time to time, as it has incurred expenditures against estimates submitted herein to file supplemental petitions for permission to sell part or all of the \$160,000 of bonds. At the time the Commission passes on these supplemental petitions, it will fix the minimum price at which the bonds may be sold.

Applicant reports in Exhibit "A" \$3,094,000 of its 5½ per cent bonds outstanding. In addition, it reports outstanding December 1, 1919: \$166,306.58 of unsecured notes payable \$400,000 of 6 per cent 2-year debenture notes payable to banks and individuals, and \$63,116.36 of accounts payable. The accumulated surplus of the company, as of November 30, 1918, is reported at \$238,003.02. A part of the expenditures incurred on capital account to November 30, 1918, has been financed through the investment of earnings, and a portion through moneys borrowed by the issue of notes and the extension of credit on open account.

Mr. McFarland, secretary of Southern Counties Gas Company of California, testified that he was unable to determine the exact proportion of the company's expenditures on capital account, which may represent surplus earnings invested in property, or which

may have been financed through the issue of notes or made possible by having credit extended on open account. The authority herein granted to issue bonds, is based upon the record, showing that certain expenditures on capital account have been or will be incurred. Obviously, applicant at a time when it is selling  $5\frac{1}{2}$  per cent bonds at 82, should give serious consideration to the liquidation of its notes and accounts payable before disbursing the proceeds from the bonds for any other purpose, even though under the law it may be permitted to issue bonds to reimburse its treasury because of earnings invested in property.

Through the issue of the bonds, I expect that applicant will materially reduce its notes and accounts payable.

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 \$629,000 of bonds, a public hearing having been held and the 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 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 issue \$629,000 of its  $5\frac{1}{2}$  per cent first mortgage bonds payable May 1, 1936, upon the following conditions:

- (1).--- Bonds in the amount of \$469,000 may be sold for cash at not less than 82 per cent of their face value plus accrued interest.

- (2).-- Bonds in the amount of \$361,000 may be issued to finance in part construction expenditures incurred to November 30, 1918, the proceeds from the sale of the bonds to be used to reimburse the company's treasury because of surplus earnings invested in property and the payment of notes and accounts payable.
- (3).-- Bonds in the amount of \$108,000 may be issued and the proceeds derived from the sale thereof used to pay in part for the properties of the Ontario-Upland Gas Company and finance improvements to said properties since September 1, 1917.
- (4).-- The sale of \$160,000 of bonds, the issue of which is herein authorized, shall be made pursuant to the terms and conditions of a supplemental order or orders issued from time to time by the Railroad Commission in this proceeding.
- (5).-- 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 25th day of each month, until all of said bonds have been issued and the proceeds expended, the company shall make verified reports to the Railroad Commission in accordance with the terms and conditions of the Commission's General Order Number 24, which order, in so far as applicable, is made a part of this Order.
- (6).-- The authority herein granted shall not become effective until applicant has paid the fee prescribed

by the Public Utilities Act.

(7).--- The authority herein granted to issue bonds shall apply only to such bonds as may be issued on or before November 30, 1919.

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 25th day of December, 1918.

Fee \$629.00

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*W. P. Williams*

*Edwin O. Edgerton*  
*H. D. Cleveland*  
*Alfred G. Jordan*  
*Frank R. Down*

Commissioners.