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Decision No.

ORIGINAL

Decision No. 16211

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of CENTRAL COUNTIES GAS COMPANY
for permission to issue stocks and
bonds.)

) Application No. 4308.
)

John Earle Jardine and F. W. Hunter, for applicant.
J. E. White, for Welsbach Company.

LOVELAND, Commissioner.

O P I N I O N

This application involves the transfer of the properties, formerly owned by the Central California Gas Company to Central Counties Gas Company; the issue of \$75,000.00 of stock and \$300,000.00 of bonds of Central Counties Gas Company to acquire the properties and pay reorganization expenses, and the execution of a deed of trust.

On July 1, 1912 Central California Gas Company executed to Los Angeles Trust and Savings Bank, Trustee, its deed of trust securing the payment of \$500,000.00 of 6 per cent twenty year bonds. Central California Gas Company issued \$300,000.00 of

these bonds. The petition shows that subsequent to the issue of

the bonds, default was made not only in the payment of interest but also in the performance of other covenants of the deed of trust. On July 31, 1917 an action was begun in the Superior Court of the State of California in and for the County of Tulare wherein Los Angeles Trust and Savings Bank, Trustee, was plaintiff and Central California Gas Company, et al., were defendants, to foreclose the deed of trust. On April 5, 1918 the court entered a decree directing the sale of the properties of the defendant corporation for the purpose of satisfying the payment of its bonded indebtedness. On May 18, 1918 the properties were sold to John Earle Jardine, J. W. Edminson and G. W. Vosburg, trustees, representing the owners of bonds of Central California Gas Company. On June 4, 1918, the court confirmed the sale and on the same date a deed was executed and delivered to John Earle Jardine, J. W. Edminson and G. W. Vosburg, as trustees, by S. Mitchell, Commissioner appointed by the court to make the sale. The deed is recorded in Book 262, page 259 of Deeds, Records of Tulare County. Since the execution of this deed, John Earle Jardine, J. W. Edminson and G. W. Vosburg, as trustees, have been operating the properties formerly owned and operated by Central California Gas Company. A description of the properties which they acquired is contained in Exhibit No. 2. The record shows that the trustees acquired all of the properties formerly owned by the Central California Gas Company and that all of the properties acquired by them at the foreclosure sale will be transferred to the Central Counties Gas Company.

All of the \$300,000.00 of bonds issued by Central California Gas Company were deposited under a bondholders' agreement, dated June 15, 1917. The agreement, among other things, authorizes the reorganization committee (G. W. Vosburg, J. W. Edminson and John Earle Jardine) to organize a new corporation and to determine the amount of stock which such new corporation might issue for the

purpose of carrying out the bondholders' agreement. The committee has caused to be organized Central Counties Gas Company with an authorized capital stock of \$500,000.00, divided into 500,000 shares of the par value of \$1.00 each. The \$500,000.00 of stock consists of \$200,000.00 of 7 per cent cumulative preferred and \$300,000.00 of common. The committee, or rather the trustees, who have acquired the properties of Central California Gas Company have offered to convey all of these properties to Central Counties Gas Company for \$300,000.00 of bonds and \$75,000.00 of common stock. The committee proposes to distribute the bonds to the holders of the bonds of Central California Gas Company in the same denomination and of the same face value as the original ownership of the bonds of Central California Gas Company. The committee will accept the stock on the basis of 80. Stock in the amount of \$47,500.00 is to be distributed to the bondholders of Central California Gas Company in proportion to their ownership of bonds for the purpose of satisfying delinquent ^{interest} payments. The accrued and unpaid interest to January 1, 1919 is reported at \$38,000.00. The remaining \$27,500.00 of common stock the committee intends to sell for not less than 80 and use the proceeds to pay expenses resulting from and incidental to the foreclosure of the deed of trust of Central California Gas Company. In Exhibit No. 3 such expenses are reported at \$22,250.33. In addition the committee asks as compensation the sum of \$2,923.53, making a total of \$25,173.86. The expenses reported in Exhibit No. 3 are of such a nature that they should be paid before any of the proceeds from the sale of the stock is used to pay members of the reorganization committee.

Central Counties Gas Company asks authority to execute to Los Angeles Trust and Savings Bank, Trustee, a deed of trust securing the payment of \$500,000.00 of 6 per cent 20 year bonds, payable January 1, 1939. Bonds in the amount of \$300,000.00 will be issued forthwith for the purpose indicated herein. From time to time additional bonds (not exceeding \$200,000.00 in the aggregate) may be issued,

under the terms of the deed of trust, to an amount or amounts in par value not exceeding in the aggregate 75 per cent of the actual and reasonable cash expenditures by the company for permanent additions or improvements to its properties subject, among others, to the condition that the trustee certify no bonds unless the earnings of the company for twelve months next preceding each respective application for the certification of bonds, and after deducting from such earnings all operating expenses including taxes, insurance and customary expenditures for current repairs or current maintenance, ordinarily chargeable to operating expenses, have been equal to at least one and one-half times the annual interest charges on all bonds issued and outstanding, together with the annual interest charges on all bonds sought to be certified.

The bonds are redeemable on January 1, 1922 or on any interest payment date thereafter at 103. The lien of the deed of trust attaches to all of the property owned by the company at the time the instrument is executed and to all property thereafter acquired. To reinforce the security for the payment of the bonds the company agrees to create a sinking fund to redeem bonds and a special trust fund to finance the acquisition of new property. John Earle Jardine, president of Central Counties Gas Company, has advised the Commission that there will be eliminated from the form of the bond the following language:—"This bond has been authorized by, and is issued under and by virtue of an order of the Railroad Commission of the State of California".

In Decision Number 6014, dated December 23, 1918, the Commission fixed a rate which, it is estimated, will yield sufficient revenue to cover operating expenses, including taxes and depreciation and a 6 per cent return on \$350,000.00. While an appraisal of the properties has been submitted, it does not seem necessary to make a definite finding of the cost of the properties for the purposes of this proceeding.

Central Counties Gas Company will assume the payment of all current indebtedness incurred by Receiver S. Mitchell or by John Earle Jardine, J. W. Edminson and G. W. Vosburg, as trustees, representing the bondholders. With this assurance by the president of the company, J. E. White, representing Welsbach Company withdrew his objection to the granting of this application.

I herewith submit the following form of Order:

O R D E R

Application having been made to the Railroad Commission for an order authorizing the sale and transfer of the properties referred to in the foregoing opinion and for an order authorizing the execution of a deed of trust and the issue of stock and bonds by CENTRAL COUNTIES GAS COMPANY, 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 the issue of the stock and bonds herein authorized, 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 John Earle Jardine, J. W. Edminson and G. W. Vosburg, as trustees, representing the bondholders of Central California Gas Company be, and they are hereby, authorized to transfer to Central Counties Gas Company, the properties described in Exhibit No. 2, it being understood, that all of the properties acquired by the trustees at the foreclosure sale, held on May 18, 1918, will be transferred to Central Counties Gas Company.

IT IS HEREBY FURTHER ORDERED that Central Counties Gas Company be, and it is hereby, granted authority to execute a deed of trust substantially in the same form as the deed of trust attached to the petition herein and marked Exhibit "C", provided the language:-

"This bond has been authorized by, and is issued under and by virtue of an order of the Railroad Commission of the State of California", be eliminated from the form of the bond.

IT IS HEREBY FURTHER ORDERED that Central Counties Gas Company be, and it is hereby, granted authority to issue \$75,000.00 of stock and \$300,000.00 of first mortgage 6 per cent 20 year bonds, payable January 1, 1939.

The authority herein granted is upon the following conditions and not otherwise:-

1.-The bonds herein authorized shall be issued at par to the committee referred to in the foregoing opinion and by it distributed to the holders of bonds of Central California Gas Company in the same denominations and of the same face value as the original ownership of the bonds of Central California Gas Company, and as outlined in the petition herein.

2.-The stock herein authorized shall be issued to the committee referred to in the foregoing opinion on a basis of not less than 80 and \$47,500.00 of stock distributed by the committee to the bondholders of Central California Gas Company in proportion to their ownership of bonds for the purpose of satisfying delinquent interest payments; the remaining \$27,500.00 shall be sold by the committee at not less than 80 and the proceeds used to pay, in the manner set forth in the foregoing opinion, the expenses resulting from and incidental to the foreclosure of the deed of trust of Central California Gas Company.

3.-The approval herein given of the deed of trust is for the purpose of this proceeding only and an approval only 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 deed of trust as to such other legal requirements to which said deed of trust may be subject.

4.-The amount of securities herein authorized to be issued by Central Counties Gas Company shall never be urged before this Commission or other public body as a rate base or as representing the value of the properties for any purpose other than that referred to in this proceeding.

5.-Within thirty days after the execution by the petitioners herein of an instrument of conveyance transferring the properties referred to herein, a certified copy of said instrument of conveyance shall be filed with the Railroad Commission by Central Counties Gas Company.

6.-Central Counties Gas Company shall submit to the Commission for approval the book entries relative to the transfer and purchase of the properties referred to herein.

7.-Central Counties Gas Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds from the sale of the stock and bonds herein authorized to be issued and until all of said stock and bonds are issued and the proceeds expended, shall on or before the twenty-fifth day of each month make verified reports to the Railroad Commission in accordance with the Commission's General Order Number 24, which order, in so far as applicable, is made a part of this order.

8.-The authority herein granted shall not become effective until Central Counties Gas Company has paid the fee prescribed in the Public Utilities Act.

9.-The authority herein granted shall apply only to such stock and bonds as may be issued on or before August 1, 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 February, 1919.

Edwin D. Ely

H. S. Loveland

Brown R. Wilson

H. B. Bundege

Irvine Martin

Commissioners.