

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of  
CENTRAL CALIFORNIA GAS COMPANY for  
a modification of the order made by  
the Railroad Commission on October 3,  
1912 in Application No. 204.

Application No. 606

C. S. S. Forney for applicant.

O P I N I O N -

THELEN, Commissioner.

In its order dated October 3, 1912, this Commission has heretofore authorized Central California Gas Company to issue amounts of stocks and bonds therein specified for various purposes in connection with the operations of the Central California Gas Company. Among other authorizations, this Commission in said order authorized Central California Gas Company to issue its bonds of the face value of \$7,000 and its preferred stock of the par value of \$5,300, the proceeds whereof - not to be less than \$10,000 - to be used to purchase a gas holder and to erect and install the same on land to be purchased as a site therefor in the city of Porterville, and for certain accessories necessary in the operation of the holder.

Central California Gas Company now petitions for authority to issue such bonds and stock and to use the proceeds thereof for certain improvements to its gas plant in the city of Visalia, which improvements applicant considers to be more necessary at the present time than said improvements heretofore contemplated in the city of Porterville. The improvements contemplated at Visalia include the installation of a generating set, having a capacity of 30,000 cubic feet per hour, a 100-horsepower boiler, a turbo blower and a turbo pump, together with the necessary piping for all of this apparatus, and the erection of a building to house this and other apparatus, the total to cost \$10,000. The Commission has investigated the prices to be paid for these various items and is satisfied that they are reasonable.

The application would be granted without further comment were it not for certain facts which developed at the hearing in connection with an investigation which this Commission has been conducting with reference to the expenditure of the proceeds of other stocks and bonds which this Commission has heretofore by various orders authorized the Central California Gas Company to issue. It develops that the construction of the transmission line between Visalia and Porterville and of the distributing systems in Lindsay, Exeter and Strathmore, totalling an expenditure of \$105,500 was all included in a single contract which was let by Central California Gas Company to General Operating and Construction Company. The latter company is controlled by Mr. C. S. S. Forney, who is also the president of the Central California Gas Company. The contract was let on the basis of the unit prices which were specified in the exhibits which were prepared by the engineers of the Central California Gas Company and which were attached to the various applications which have been submitted to this Commission by said Company. It now appears, however, that the actual cost of the work was considerably less than the figures specified in said engineers' estimates, but that the General Operating and Construction Company has nevertheless been paid the full contract price, or nearly all of it, on the work. In other words, the General Operating and Construction Company, a subsidiary construction company, has reaped an undue profit out of the contract. It appears that certain additional work which was not included in the contract, particularly a longer transmission main between Porterville and Visalia and a more extensive distributing system in Exeter and Lindsay, and also the entire distributing system in Strathmore, has been performed by the General Operating and Construction Company. Mr. Forney, however, the president of the General Operating and Construction Company, stated to the Commission in this proceeding that the General Operating and Construction Company will make no claim against the Central California Gas Company for any of these items.

From a report made to this Commission by its engineering department, it appears that even including the estimated cost of the extra work, the General Operating and Construction Company has made a profit out of this contract of about \$15,000, or about 15% of the total amount.

It also appears that the General Operating and Construction Company gave no bond or other security for the performance of the work and that the Central California Gas Company has no protection whatsoever against the possible claims of laborers or material men under the mechanics' lien law. While the General Operating and Construction Company has paid, according to Mr. Forney, about 75% of the bills incurred for work done in connection with the contract, the remaining bills have not been paid and the Central California Gas Company has no security for their payment.

It is evident that Mr. Forney has used his position in both of these companies to reap for the General Operating and Construction Company an undue profit out of this work at the expense of the Central California Gas Company.

This Commission will henceforth examine with the most careful scrutiny any transaction to which the General Operating and Construction Company is a party. The order in this case will provide that no moneys which may still be due from Central California Gas Company to General Operating and Construction Company shall be paid over unless the consent of this Commission shall first have been secured. The order will also be conditioned upon the furnishing by General Operating and Construction Company to Central California Gas Company of a bond in form and amount satisfactory to this Commission, protecting Central California Gas Company against any and all claims arising out of the contract with the General Operating and Construction Company. The order will further be conditioned upon the filing with this Commission of a stipulation in form satisfactory to it, executed by the General Operating and Construction Company and expressly waiving the right to collect from Central California Gas Company any compensation for extra work performed under or in connection with its contract.

At the hearing Mr. Forney presented certain statements purporting to show the present financial condition of the Central California Gas Company and results of its financial operations. If it became necessary to consider these statements they would be carefully scrutinized by the Commission to ascertain whether all expenses properly chargeable to operating expenses have been so charged and whether the statements are in all other respects correct.

I submit herewith the following form of order:

O R D E R.

CENTRAL CALIFORNIA GAS COMPANY having filed with this Commission its application for authority to issue its bonds numbered 244 to 250, inclusive, and fifty-three (53) shares of its preferred stock, for a consideration in cash of not less than ten thousand (\$10,000) dollars, and to use the proceeds for designated improvements to its gas plant in the city of Visalia instead of using them for improvements in the city of Porterville, as specified in this Commission's order on Application No. 204, and a public hearing having been held on said application,

IT IS HEREBY ORDERED that said application be and the same is hereby granted, subject to the following express conditions, and not otherwise, to-wit:

1. The proceeds to be derived from the sale of said bonds and stock, which proceeds shall be not less than the sum of ten thousand (\$10,000) dollars in cash, shall be applied only for the improvements at Visalia, specified in paragraph 5 of the application, consisting of a new generating set with the appurtenances specified. Said bonds and stock are to be used for this purpose only, and not for the construction and improvement heretofore contemplated in the city of Porterville.

2. Said bonds and stock shall not be issued until Central California Gas Company shall have secured and filed with this Commission a stipulation executed by the General Operating and Construction Company under the authority of a resolution of its board of

directors to the effect that General Operating and Construction Company waives all claims which it might have against Central California Gas Company for extras under its contract with said Company, referred to in this opinion.

3. Said bonds and stock shall not be issued until General Operating and Construction Company shall execute and file with this Commission a bond with sufficient sureties, in form and amount satisfactory to this Commission, to secure Central California Gas Company against the demand of any and all claims arising in connection with the work which has been performed for it by said General Operating and Construction Company.

4. No further payments shall be made by Central California Gas Company to or for General Operating and Construction Company under or in connection with said contract, or otherwise, unless an order of this Commission authorizing such payments shall first have been secured.

5. Central California Gas Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the stock and bonds hereby authorized to be issued, and on or before the 25th day of each month applicant shall make verified reports to this Commission stating the sale or sales of said stock or bonds during the previous 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.

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 12th day of  
July, 1913.

John W. Washburn

Alex. Gordon

Max Thelen

Edwin O. Edgerton

Commissioners.