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Decision No. 8399

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

ORIGINAL

In the Matter of the Application of
SOUTHERN COUNTIES GAS COMPANY OF CAL-
IFORNIA for an order authorizing the
issuance of ten year collateral trust
gold bonds, and the execution of a
trust deed and mortgage securing same,
and the pledging of first mortgage bonds
as part of the security therefor.

Application No. 6307.

Walter S. McFarland, for Applicant.

EDGERTON AND BRUNDIGE, COMMISSIONERS.

O P I N I O N.

SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA asks permission to execute a trust deed providing for an authorized issue of 10-year collateral trust 8% gold bonds in the sum of \$1,000,000.00, to issue and sell \$400,000.00 of said bonds at 95% of their face value, plus accrued interest, and use the proceeds to reimburse its treasury and pay current indebtedness.

On account of prevailing interest rates, applicant reports that it is not able to secure what it regards as a reasonable price for its 5½% first mortgage bonds. It believes that it is to its advantage to issue and sell at 95% of their face value, plus accrued interest, \$400,000. of 10-year 8% bonds and use first mortgage bonds as collateral to secure the payment of the 10-year 8% bonds.

The proposed trust deed under which applicant intends to issue and sell the 10-year 8% bonds provides that the holder at his option may exchange the 10-year 8% bonds into applicant's first mortgage 5½% bonds. The company agrees to issue to the holder of 8% bonds, upon the surrender thereof, at any time on or before December 1, 1925, so many of its first mortgage bonds as at 85% of their face value, will be equal to the face amount, plus accrued interest, of the collateral trust bonds surrendered. At any time after December 1, 1925, and up to and including December 1, 1930, the company agrees to deliver to the holder of 8% bonds, upon the surrender thereof, so many first mortgage 5½% bonds as at 90% of their face value, plus accrued interest, will be equal to the face amount of collateral trust bonds surrendered.

In another proceeding before the Commission applicant has asked and has been granted authority to deposit first mortgage bonds to secure the payment of the collateral trust bonds herein authorized to be issued and sold.

The proposed trust deed will be a lien not only on the bonds deposited but also a lien on applicant's properties situate in the City of Whittier subject to the lien of applicant's first and second mortgages. It provides that as applicant pays off its 8% bonds, a proper proportion of first mortgage bonds deposited as collateral security shall be returned to applicant.

The trustee under applicant's first mortgage, is authorized to certify bonds to an amount or amounts not exceeding 80% of the actual and reasonable cash expenditures made after May 1, 1916 for permanent extensions, enlargements and additions of and to the plants and properties of the company. Since the execution of this mortgage applicant has issued, or has been authorized to issue, bonds to the amount permitted under its first mortgage. To pay for 20% of the cost of properties acquired or constructed, applicant has resorted largely to borrowing moneys on short term notes or has incurred open

account indebtedness. From time to time its liabilities represented by short term notes or open account indebtedness, have been refunded. The result of applicant's method of financing has been an accumulation of current liabilities larger in amount than is desirable. Applicant operates throughout a territory which is developing rapidly. It has been necessary and will continue to be necessary for applicant to spend relatively large amounts for plant extensions, additions and betterments.

To properly discharge its functions, it occurs to us that applicant should devise a more satisfactory method of financing part of its expenditures for plant extensions, additions and betterments. We therefore recommend that the Commission require applicant to submit within six months after date hereof, a plan for permanently refinancing at least that part of the cost of plant extensions, additions and betterments which cannot be paid for through the issue of first mortgage bonds. Until such plan is submitted and approved by this Commission, we will not look with favor upon further applications of this character.

Walter S. McFarland, secretary of Southern Counties Gas Company of California, testified that if this application is granted and applicant permitted to reimburse its treasury, it will use all the moneys obtained through the issue of the 10-year collateral trust 8% gold bonds to pay current liabilities.

We herewith submit the following form of Order:

O R D E R.

SOUTHER COUNTIES GAS COMPANY OF CALIFORNIA having applied to the Railroad Commission for permission to execute a trust deed and issue \$400,000.00 of 10-year 8 per cent bonds, 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 through such issue, is reasonably required by applicant, and that the expenditures herein authorized 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 a trust deed substantially in the same form as the trust deed filed with the Commission on November 17, 1920, provided that the approval herein given of said trust deed 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 trust deed as to such other legal requirements to which said trust deed may be subject.

IT IS HEREBY FURTHER ORDERED that SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA be, and it is hereby, authorized to issue \$400,000. of 10-year collateral trust 8% gold bonds, due December 1, 1930.

The authority herein granted is subject to further conditions as follows:-

1. The bonds herein authorized to be issued shall be sold by applicant for not less than 95% of their face value, plus accrued interest, and the proceeds used by applicant to reimburse its treasury, and after such reimbursement, to pay current liabilities reported in Application No. 6306.

2. As 10-year collateral trust 8% gold bonds are being redeemed, a proper proportion of applicant's first mortgage bonds deposited as collateral, shall be returned to applicant and thereafter not disposed of in any manner whatsoever except as authorized by the Commission.

3. Within six months after the date herein, Southern Counties Gas Company of California shall file with the Railroad Commission a plan approved by its Board of Directors and stockholders providing for the permanent financing of at least that portion of the cost of plant extensions, additions and betterments against which the trustee

✓ under its first mortgage, shall not certify bonds.

4. SOUTHERN COUNTRIES GAS COMPANY OF CALIFORNIA shall keep such record of the issue and sale of the bonds herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month, a verified report, as required by the Railroad Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

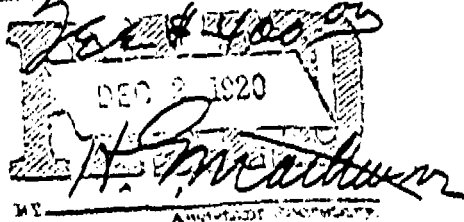
5. The authority herein granted will not become effective until applicant has paid the fee prescribed in the Public Utilities Act.

6. The authority herein granted will apply only to such bonds as may be issued on or before April 1, 1921.

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 30th day of November, 1920.

Railroad Commission State of California



E. O. Edgerton
H. J. Howard
Frank R. Miller
H. K. Brundige
Erving Martin

Commissioners.