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Decision No. 8819.

**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE  
STATE OF CALIFORNIA.

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In the Matter of the Application of the )  
SOUTHERN CALIFORNIA GAS COMPANY )  
for an order authorizing the issuance ) Application No. 6640.  
and sale of bonds. )

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Jared How for applicant.

LOVELAND, Commissioner.

O P I N I O N.

SOUTHERN CALIFORNIA GAS COMPANY asks permission to issue and sell \$1,500,000.00 of its first and refunding mortgage bonds, or interim certificates pending preparation and delivery of such bonds; to use the proceeds from the sale of such bonds to reimburse its treasury and to finance in part the cost of future extensions, additions and betterments; and to issue and deposit \$1,500,000.00 of first mortgage bonds with the trustee under the first and refunding mortgage.

The testimony of Mr. A.C. Balch, applicant's vice president, shows that the company proposes to create a new bonded indebtedness of \$25,000,000.00 to be represented by first and refunding mortgage bonds. In the opinion of Mr. Balch, it has become necessary for Southern California Gas Company to execute a new mortgage rather than to do further financing under its first mortgage, for the reason that the authorized indebtedness under the existing mortgage is limited to \$10,000,000.00 of six per cent bonds maturing November 1, 1950. Mr. Balch stated that it has been found difficult, if not impossible, to sell six per cent bonds in the present

market upon advantageous terms, and furthermore, that \$5,434,000.00, the amount of unissued first mortgage bonds, is insufficient for future needs.

Applicant has filed with the Commission a detailed statement showing expenditures of \$1,360,833.49, against which it has issued no bonds. It also filed in this proceeding a detailed statement of estimated expenditures aggregating \$857,790.11, which added to the \$1,360,833.49 makes a total of \$2,218,623.60. The testimony of A.C. Balch shows that if this application is granted, all of the proceeds which applicant will receive from the sale of the \$1,500,000 of bonds will be invested in property, even though the company asks permission to use part of the proceeds to reimburse its treasury. The entire amount, he states, will be used to pay off indebtedness incurred in connection with the construction of extensions, additions and betterments, or to pay for new construction.

While a copy of applicant's proposed first and refunding mortgage has not been filed, the \$1,500,000.00 of bonds which applicant asks permission to sell, have been purchased by Cyrus Peirce and Company, subject to certain provisions being included in the proposed mortgage. The \$1,500,000.00 of bonds are to mature thirty years after date, bear interest at the rate of 7 per cent per annum and may be called for redemption at 107½ and interest during the first ten years and at 105 and interest thereafter. The proposed mortgage is to secure the payment of first and refunding mortgage bonds in the amount of \$25,000,000.00. The bonds shall bear interest at such rates, mature at such time and be callable at such prices as the board of directors of Southern California Gas Company may determine. The proposed mortgage is to contain a provision permitting the issue of bonds at par for 75 per cent of the cost of new construction, improvements or betterments, provided the net earnings of the company for twelve months out of the preceding fourteen months shall have been not less than an amount sufficient to show at least one and three-

quarters times the interest on all bonds then outstanding, and in addition, the interest on the bonds which the trustee under the mortgage is asked to certify. The proposed mortgage shall contain a further provision that the present first mortgage of the Southern California Gas Company shall not be closed ~~but~~ but that the bonds uncertified under such mortgage shall be deposited from time to time, when their issue is authorized, with the trustee under the proposed mortgage.

In this proceeding, applicant asks permission to issue and deposit with the trustee under said proposed mortgage \$1,500,000.00 of its first mortgage bonds. The trustee under the first mortgage is authorized to certify bonds in an amount equal to 85 per cent of the cost of new construction if the net earnings for the twelve months period, ending two months prior to the filing of the application for the certification of bonds, have been equal to at least one and a half times the annual interest charges on all bonds outstanding, together with the interest charges on the bonds which the trustee is asked to certify.

The proposed mortgage is also to contain a sinking fund provision which shall be mutually agreed upon by applicant and the purchaser of the bonds referred to in this application. The Commission will not pass upon the provisions of the proposed mortgage until a complete copy of the mortgage has been filed with the Commission.

Applicant as of December 31, 1920, reports assets and liabilities as follows:

Assets:

Fixed Capital, . . . . .	\$12,515,824.98
Cash, . . . . .	77,671.97
Special Deposits, . . . . .	39,000.00
Notes Receivable, . . . . .	14,287.35
Accounts Receivable, . . . . .	327,004.29
Interest and Dividends Receivable, . . . . .	2,430.29
Liberty Loan Bonds, . . . . .	86,846.00
Materials and Supplies, . . . . .	501,984.85
Prepaid Expenses, . . . . .	7,912.84
Unamortized Discount on Stock, . . . . .	150,000.00
Unamortized Discount on Bonds, . . . . .	472,479.82
Other Suspense, . . . . .	16,629.04
Construction Work in Progress, . . . . .	459,676.71
Oil Wells, . . . . .	103,007.27
Midway Gas Company bonds in escrow, . . . . .	136,800.00
Gas Plants to be amortized, . . . . .	46,063.14
<u>Total Assets, . . . . .</u>	<u>\$14,957,618.55</u>

Liabilities:

Capital Stock, . . . . .	\$ 6,875,000.00
Common Stock, . . . . .	36,000,000
Preferred Stock, . . . . .	875,000
Funded Debt, . . . . .	4,596,000.00
Notes Payable, . . . . .	332,786.80
Accounts Payable, . . . . .	1,051,717.77
Interest and Taxes Accrued, . . . . .	61,082.28
Dividends Declared, . . . . .	26,250.00
Reserve for Accrued Depreciation, . . . . .	1,060,462.93
Casualty and Insurance Reserves, . . . . .	34,484.01
Other Reserves, . . . . .	126,515.26
Corporate Surplus Unappropriated, . . . . .	793,319.50
<u>Total Liabilities, . . . . .</u>	<u>\$14,957,618.55</u>

During the past five years, applicant has paid no dividends on its common stock. Applicant's preferred stock carries a cumulative dividend at the rate of 6 per cent per annum. No dividend on this stock was paid during 1916, 1917 and 1918. During 1919, the company paid on its outstanding \$875,000.00 of preferred stock \$52,500.00, and during 1920, \$131,250.00 in dividends.

Applicant's funded debt as of December 31, 1920, consisted of \$4,566,000 of 6 per cent first mortgage Southern California Gas Company bonds and \$30,000 of 5 per cent first mortgage bonds issued by Riverside Light and Fuel Company, the payment of which bonds has been assumed by applicant.

For the two years ending December 31, 1920, applicant reports

operating revenues, expenses and other deductions from earnings as follows:

I t e m	1 9 2 0	1 9 1 9
Operating Revenue	\$3,078,469.39	\$2,600,001.42
Operating Expenses	2,433,889.92	2,002,970.77
Net Operating Revenue	644,579.47	597,030.65
Non-Operating Revenue	31,842.27	30,596.08
Gross Corporate Income,.....	676,421.74	627,726.73
Deduct:		
Uncollectible Bills	7,332.06	11,966.47
Interest on Funded Debt,	274,860.00	247,141.65
Other Interest Deductions	7,433.67	8,779.11
Amortization of Debt Discount & Expense	15,837.26	14,934.11
Total Deductions,.....	305,462.99	282,821.34
Surplus for Year,.....	370,958.75	344,905.39

The record in this proceeding shows that applicant has sold the \$1,500,000.00 of its first and refunding bonds at 92 and accrued interest. Pending the execution and delivery of the bonds, applicant asks permission to issue and sell interim certificates at the same price. All the proceeds obtained from the sale of the interim certificates will be deposited with the Union Bank and Trust Company of Los Angeles, who is to act as trustee under the proposed first and refunding mortgage. None of the moneys obtained from the sale of the interim certificates will become available to applicant until it is in a position to deliver the bonds. In the event that the bonds are not delivered, the moneys paid by the purchasers of interim certificates will be returned to such purchasers.

Inasmuch as applicant has not filed with the Commission a copy of its proposed first and refunding mortgage, the Commission cannot at this time make a final order in this proceeding.

I herewith submit the following form of order.

O R D E R.

SOUTHERN CALIFORNIA GAS COMPANY having applied to the Railroad Commission for permission to issue and pledge \$1,500,000.00

of its first mortgage bonds and to issue and sell \$1,500,000.00 of its first and refunding mortgage 7 per cent 30-year bonds; to execute a mortgage and to issue and sell interim certificates pending the delivery of the first and refunding mortgage 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 by such issue is reasonably required for the purpose or purposes specified herein 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 CALIFORNIA GAS COMPANY be, and it is hereby, authorized to issue and deposit with the trustee under its first and refunding mortgage, if the execution of such mortgage is hereafter authorized by the Commission, \$1,500,000.00 of first mortgage 5 per cent bonds due November 1, 1950; ~~and~~ to issue \$1,500,000.00 of first and refunding mortgage bonds, and pending the delivery of said first and refunding mortgage bonds, issue and sell \$1,500,000.00 of interim certificates exchangeable for first and refunding mortgage bonds herein authorized to be issued.

The authority herein granted is subject to the following conditions:

- 1.--The \$1,500,000.00 of first and refunding mortgage bonds, or the \$1,500,000.00 of interim certificates which applicant is herein authorized to issue in lieu of first and refunding mortgage bonds, shall be sold by applicant, for cash, at not less than 92 per cent of their face value and accrued interest.
- 2.--The authority herein granted to issue bonds will not become effective until the Commission, by supplemental order, has authorized applicant to execute a mortgage or trust deed securing the payment of the \$1,500,000.00 of first and refunding mortgage bonds.

- 3.--The proceeds obtained from the sale of the interim certificates shall be deposited with the Union Bank and Trust Company of Los Angeles as trustee and shall not be expended in any manner whatsoever except for the purpose of reimbursing the purchasers of interim certificates in the event that first and refunding mortgage bonds are not delivered within the time specified in the interim certificates. The Commission will hereafter, if it authorizes the execution of a first and refunding mortgage securing the payment of the \$1,500,000.00 of bonds, indicate the purposes for which the proceeds from the sale of such bonds may be used.
- 4.-- Southern California Gas Company shall keep such record of the issue, deposit and sale of the bonds and of the interim certificates 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 to issue bonds or interim certificates 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

and interim certificates as may be executed, issued  
and delivered on or before November 15, 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 2<sup>nd</sup>  
day of April, 1921.

State of California  
Railroad Commission  
Fee \$ 1250 <sup>00</sup>/<sub>100</sub>  
APR 1921  
[Signature]

Frank R. Glavin  
H. D. Love  
K. C. [unclear]  
Dwight Martin  
Charles H. [unclear]  
Commissioners.