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ORIGINAL

Decision No. 9856.

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

In the Matter of the Application of)
INTERSTATE GAS COMPANY)
for an order authorizing the issuance)
of stock and bonds and to purchase)
all the property formerly owned and)
used and operated by IMPERIAL VALLEY)
GAS COMPANY now owned by W.F. HOLT.)

Application No. 7054

Burrell D. Neighbors for applicant.

BY THE COMMISSION:

O P I N I O N

INTERSTATE GAS COMPANY in the above entitled application asks permission to issue \$100,000.00 of 7 per cent. bonds and \$150,000.00 of common stock to acquire the properties formerly owned by Imperial Valley Gas Company but now owned by W.F. Holt, to reconstruct and improve some of the properties and pay for license rights to use the "Hoyt process" to manufacture gas.

A hearing was had on this application before Examiner Geary at Los Angeles on October 13th. Consideration has been given to the testimony submitted at the hearing and to statements filed subsequent thereto, and this matter is now ready for decision.

W.F. Holt acquired at foreclosure sale the properties formerly owned by Imperial Valley Gas Company. Under date of July 26, 1921, he offered to sell the properties to W. Dieterle, acting on behalf of Interstate Gas Company. He agreed to sell the properties for \$50,000.00 of first mortgage 7 per cent. bonds at par of 20 or 30 years duration, as the Railroad Commission may

determine, and \$125,000.00 of common stock. Reference will hereafter be made to the issue of the \$125,000.00 of stock.

W.F. Holt is willing to accept in payment for the properties the \$50,000.00 of first mortgage bonds, subject among others, to the condition that the purchasers secure \$45,000.00 in cash to improve the properties and that the mortgage be a first lien on all the properties except franchises and rights-of-way located elsewhere than in the cities of El Centro and Imperial. Rights-of-way not located in the cities of El Centro and Imperial and franchises not pertaining to the operation of the gas plants in those cities shall not be subject to the lien of the mortgage. The mortgage is to contain an after-acquired property clause covering all improvements which may be made to the properties in the cities of El Centro and Imperial.

Applicant proposes to secure the \$45,000.00 in cash necessary for improving the system through the sale of \$50,000.00 of bonds. W. Dieterle, president of Interstate Gas Company, testified that in his opinion the bonds cannot be sold without stock being given as a bonus. It appears from the record that the consideration which W.F. Holt is to receive for the properties is \$50,000.00 of first mortgage bonds and that he does not intend to retain the \$125,000.00 of stock. As a matter of fact, it appears from the testimony that the \$125,000.00 of stock will be delivered by W.F. Holt to W. Dieterle and his associates, who plan on distributing some of the stock as a bonus to bond purchasers and retain some as their compensation for services rendered.

In addition to the \$125,000.00 of stock, applicant asks permission to issue \$25,000.00 of stock for the purchase of an exclusive license right to use the "Hoyt process" for the manufacture of gas. If applicant's requests were granted and the authority exercised, it would have outstanding \$150,000.00 of stock and \$100,000.00

of bonds.

The Railroad Commission by Decision No. 7826, dated July 8, 1920, (Vol. 18, Opinions and Orders of the Railroad Commission of California, pg. 511) authorized Imperial Valley Gas Company to sell all of its properties to whomsoever may purchase the properties at foreclosure sale and authorized said purchaser to acquire all of said properties and sell all of said properties to the Interstate Gas Company. In the same decision, the Commission authorized Interstate Gas Company to acquire all of said properties and issue on or before December 1, 1920, in full payment therefor \$150,000. of stock. The Commission in Decision No. 7826 expressed the opinion that the Interstate Gas Company should not issue more than \$150,000.00 of its common stock to acquire all of the properties of the Imperial Valley Gas Company.

The Interstate Gas Company did not issue any of the stock nor has it acquired the properties. The properties were sold at foreclosure sale to W.F. Holt, who still owns them. They have not been operated since August, 1920. Some of the meters have been removed from private residences and placed in the warehouse. Some of the transmission line between Brawley and Imperial has been taken up. It appears that there is no present intention on the part of those now interested in rehabilitating the properties to replace the Brawley transmission line, or sell gas in Brawley. They intend to confine their operations for the present at least to the El Centro and Imperial properties. Investigations made by the Commission's engineers during the early part of 1920 show that the properties were then in a poor operating condition. Since then, practically nothing has been done to improve the properties. No detailed report or information was filed in connection with this proceeding showing the present condition of the properties. Applicant has, however, filed a statement in which it alleges that with an

expenditures of \$44,850.00 the properties can be rehabilitated and the machinery necessary to manufacture gas by the "Eoyt process" installed. The Commission's engineers are of the opinion that \$44,850.00 is not sufficient to place the properties in satisfactory operating condition.

The Commission has heretofore indicated how much stock it will permit Interstate Gas Company to issue to acquire the properties of Imperial Valley Gas Company. There was no evidence introduced which in our opinion justifies a reversal of the Commission's opinion and order in Decision No. 7826. The method of financing the acquisition and rehabilitation of the properties, we believe, to be unsound and will result in over-capitalization and impose a burden of fixed charges upon the properties which makes their successful operation very doubtful. Any bonds which applicant may desire to issue should be issued for the purpose of rehabilitating and improving the properties and not for their acquisition.

Because applicant has submitted no evidence showing that it can acquire the properties on the basis outlined in Decision No. 7826, it does not appear to be necessary at this time to discuss further the amount of stock which applicant intends to issue in payment for an exclusive license right to use the "Eoyt process" for the manufacture of gas; nor the amount of stock that will be distributed as a bonus to bond purchasers or as compensation for services rendered by W. Dieterle and his associates; nor the estimated cost of additions and betterments and the estimated operating revenues and expenses. The Commission will consider any requests that may be contained in a supplemental application, provided such requests are predicated upon Decision No. 7826. What action the Commission may take on any supplemental application can obviously not be told until the facts are properly before the Commission.

O R D E R

INTERSTATE GAS COMPANY having applied to the Railroad Commission for permission to issue stock and bonds, a public hearing having been held and the Commission having considered the evidence submitted and being of the opinion that this application should be denied without prejudice;

IT IS HEREBY ORDERED, that the above entitled application be, and it is hereby, denied without prejudice.

DATED at San Francisco, California, this 8th
day of December, 1921.

H. B. ...
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Commissioners.