



A public hearing in these matters was held before Examiner Coleman in Los Angeles on May 16, 1955, at which time they were taken under submission.

Under authorization heretofore granted by the Commission, Southern California Gas Company executed its first mortgage indenture dated October 1, 1940, and from time to time issued bonds secured thereby, of several series, of which \$108,307,000 in principal amount now are outstanding. Southern Counties Gas Company of California executed its first mortgage indenture dated January 1, 1941, and issued its bonds, also of several series, of which \$49,750,000 in principal amount are outstanding.

Generally speaking, both indentures permit the issue of additional bonds up to 66-2/3% of the net bondable value of property additions, and both provide for annual cash payments to the trustee for sinking fund purposes of amounts equal to 1% of the greatest aggregate principal amount of bonds at any one time theretofore outstanding and for further annual payments to the trustee into maintenance and sinking funds of amounts equal to 15% of the gross operating revenues for the preceding calendar year, less credits for such items as cash paid to the trustee to retire bonds and amounts charged to maintenance of mortgaged property during the preceding year. The indentures permit the companies to satisfy the balance of the 15% requirement, after application of the credits, by the substitution of cash expenditures for plant additions which expenditures thereby become unavailable for future bond financing.

Applicants assert that the 1% sinking fund provisions now are considered too small to attract new funds from the larger institutional investors and that modifications in the indentures are

required in order to facilitate future financing and to relieve the companies of certain provisions which have become unduly burdensome with the passage of time and with changed conditions. The major changes applicants propose are as follows:

1. The increase of the annual cash sinking fund from 1% to 2-1/2% of the principal amount of each series outstanding as of June 30, 1955.
2. The determination of the amount of sinking fund requirements for each future series at the time of issue.
3. The elimination of the present annual requirement of 15% of the annual gross revenues and the substitution of an annual renewal payment equal to depreciation charges less the new 2-1/2% cash sinking fund payment.
4. The limitation of the total bond issues so that the aggregate of the indebtedness under the indentures at the time of issuance of any additional bonds and after giving effect to such issuance will not exceed 50% of the total capitalization. By total capitalization is meant the sum of the preferred and common capital stock, capital surplus, earned surplus, and long-term debt, adjusted by appropriate credits or debits for stock and bond premium or discount and expense.

The record shows that should the proposed mortgage amendments be made the bondholders would enjoy additional security because of higher cash sinking fund payments to the trustee and the further limitations on the total amount of issuable bonds. The record shows further that applicants would be required to make smaller annual payments into the maintenance and sinking funds and that they should be able to draw down from the trustee in the future larger amounts of bonds against plant construction costs than they would if the present indentures should continue in effect unchanged, for the reason that smaller amounts of plant expenditures would be needed to satisfy maintenance and sinking fund requirements.

There are desirable features in the proposed programs. We have no objection to the increase in the cash sinking fund payments nor to the other changes with respect to the annual payments. In our

opinion, it is proper and desirable to restrict the level of outstanding mortgage debt in its relationship to investment in assets and to earnings, but we are not convinced, upon the basis of the information now before us, that we would be warranted in approving the propositions to freeze into the trust indentures the limitations of the bond issues to 50% of the total capitalization, as that term is defined in the proposed amendments, which is an entirely different matter. The record in this very proceeding shows that applicants have not been successful in holding their debt ratios below 50%, that presently the ratio of Southern Counties Gas Company of California is in excess of 50% and that as recently as 1952 the ratio of Southern California Gas Company rose to 51%. It appears to us not unlikely that in the event equity capital should not be available, applicants, under the terms of the amended indentures, would find it necessary to resort to higher priced debenture financing, or some other form of junior financing, if close to the 50% limitation and if in need of capital funds. The proposed restriction is too inflexible.

The record indicates that as a practical matter the several modifications are inseparable. A witness for applicants stated that the two companies would be unwilling to increase the cash sinking fund without a modification of the maintenance provisions and that in his opinion the bondholders would be unwilling to consent to a modification of the maintenance provisions without some substitute protection against the issue of additional debt. Upon the basis of the showing made in this proceeding we are of the opinion that sufficient reason has not been developed upon which we can base an order approving the indenture modifications so far as they relate to a limitation of total debt measured by the capitalization and, because the proposals must be considered in their

entirety, we have no alternative other than to deny the two applica-  
tions.

O R D E R

A public hearing having been held in the above entitled  
matters, and the Commission having considered the evidence and being  
of the opinion that the applications should be denied, therefore,

IT IS HEREBY ORDERED that Application No. 36912 and  
Application No. 36916 are denied.

Dated at San Francisco, California, this 9<sup>th</sup>  
day of June, 1955.

Peter E. Mitchell  
President  
Roy L. Wintermeyer  
Walter J. ...

\_\_\_\_\_  
\_\_\_\_\_  
Commissioners

Justus F. Crasmer  
Commissioner Rex Hardy, being  
necessarily absent, did not participate  
in the disposition of this proceeding.