

hearing upon the fairness thereof, and authorizing the execution of supplemental indentures and the issue and exchange of bonds.

A public hearing on the two matters was held before Examiner Coleman in Los Angeles on July 14, 1955, after notice of such hearing had been given by publication, at least 15 days prior thereto, in newspapers of general circulation in Los Angeles, San Francisco, Chicago and New York and by mailing to all persons, approximately 2,100 in the case of Southern California Gas Company and 1,175 in the case of Southern Counties Gas Company of California, who were known or believed to be bondholders, and by mailing to all the participating underwriters of prior issues of applicants' bonds. No protests were received by the Commission and the applications were taken under submission.

Under authorization heretofore granted by the Commission, Southern California Gas Company executed its first mortgage indenture dated November 1, 1940, and from time to time issued bonds secured thereby, of several series, of which \$107,202,000 in principal amount were outstanding on April 30, 1955. Southern Counties Gas Company of California executed its first mortgage indenture dated January 1, 1941, and from time to time issued its bonds, also of several series, of which \$49,750,000 in principal amount were outstanding on the same date. The terms of the indentures may be modified with the consent of the holders of two-thirds of the principal amount of outstanding bonds.

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 outstanding, and

for further annual payments to the trustee into maintenance and sinking funds of amounts equal to 15% of the gross operating revenues in 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% requirements, after application of the credits, by 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 the 15% requirements, due to changes in economic and operating conditions, have become burdensome and have impaired their ability to issue bonds to finance construction costs. They represent that at the times the indentures were executed in 1940 and 1941 the ratio of revenues to physical plant was such that property additions not financed with depreciation cash were all available as a basis for the issuance of additional bonds, but that presently, and during the last few years, the gross revenues have been increasing out of proportion with the increase in the amounts required for annual maintenance with the result that the companies have had to use an increasingly large amount of plant expenditures to meet the mortgage provisions, leaving a correspondingly smaller amount of such expenditures available for certification of additional bonds. The objectives of the present proceedings, therefore, are the revisions of the present indentures so as to improve the bonding capacity of applicants and thereby facilitate the financing of the year-to-year growth in the plants and properties. Exhibits filed in the proceedings show, among other things, the estimated debt financing for the years 1956 to 1960, inclusive, as limited by the terms of

the present indentures and as limited by the terms of the proposed revisions, as follows:

	<u>Southern California</u>		<u>Southern Counties</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
1956	\$23,296,000	\$25,241,000	\$6,592,000	\$8,062,000
1957	22,916,000	25,272,000	6,616,000	8,137,000
1958	12,376,000	15,480,000	6,257,000	8,216,000
1959	9,692,000	14,891,000	5,902,000	8,299,000
1960	9,276,000	14,913,000	5,550,000	8,384,000

To accomplish their objectives, applicants seek to obtain the consent of the bondholders for relief from the restrictions imposed by the 15% provision, with substitution of other requirements, however, and, as compensation, to increase the cash sinking fund payments and to set up new limitations on the total bonded debt. The major changes in the indentures, briefly stated, are as follows:

1. The increase of the annual cash sinking fund from 1% to 2-1/2% of the principal amount of each of the existing series of bonds.
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 requirements of 15% of the annual gross revenues and the substitution of requirements for payments of sums equal to the annual depreciation properly chargeable to operating expenses, less the new 2-1/2% cash sinking fund payments.
4. The limitation on the total bond issues so that the aggregate amount of bonds to be outstanding under the indentures will not exceed 50% of the net investment in mortgaged properties. The term "net investment in mortgaged property" shall mean as of any particular time the total cost of the mortgaged property less the then related reserves for depreciation, depletion and amortization or other reserves for retirement of such property; all determined in compliance with the Uniform System of Accounts for Gas Corporations prescribed by the Public Utilities Commission of the State of California, effective January 1, 1949, or in compliance with such system of accounts as said Commission or other similar regulatory body may from time to time prescribe, or to the extent that any such system is not so prescribed or is not applicable, then in accordance with sound accounting practice.

The record indicates that the companies' ability to issue bonds for new construction has declined in recent years, due to the operation of the so-called 15% provision in the indentures, and that the proposed changes should be beneficial to all parties concerned and in the public interest. From the bondholders' point of view, it

appears that the new provisions for increased sinking fund payments should make the bonds more attractive and should increase their security by retiring a substantially increased percentage of the presently outstanding debt, and that the limitation based on 50% of the net mortgaged property should provide a margin of physical protection for the bonds. From the point of view of the companies and their equity owners it is asserted that the new indenture provisions should increase the bonding capacity to meet future construction requirements. Finally, applicants urge that the ability to fund a larger portion of plant additions with low-cost debt will, in turn, result in a lower overall cost of capital with resultant savings to the ratepayers.

Applicants report they are advised by their counsel that the making of the proposed amendments of the indentures may constitute such a change in the bonds now outstanding thereunder as would, as a matter of law, result in the issuance under the amended indentures of bonds in exchange for a like principal amount of bonds outstanding on the effective date of such amendments. They report they are further advised that in the circumstances it is legally advisable that appropriate authorization be obtained from the Commission for such issuance and exchange and that, in view of the fact that such issuance and exchange might constitute a public offering of the securities involved, it is also legally desirable that the Commission, pursuant to Section 822 of the Public Utilities Code, approve the terms and conditions of such issuance and exchange, after a hearing on the fairness thereof, thus bringing the transactions within the exemption provided by the Securities Act of 1933.

Upon a review of these applications we are of the opinion, and so find, that the proposed transactions will not be adverse to

to the public interest. Assuming, without deciding, that the legal effect of the contemplated transactions will constitute an issuance and exchange of bonds we find, after hearing, that the terms of such issuance and exchange are fair. The requests of applicants will be granted.

O R D E R

A public hearing having been held on the above entitled matters and the Commission having considered the evidence and being of the opinion that the applications should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required by applicants for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:

1. Southern California Gas Company hereby is authorized to execute a supplemental indenture dated as of August 1, 1955, which supplemental indenture shall be in, or substantially in, the same form as that filed in Exhibit No. 2.

2. Southern Counties Gas Company of California hereby is authorized to execute a supplemental indenture dated as of August 1, 1955, which supplemental indenture shall be in, or substantially in, the same form as that filed in Exhibit No. 4.

3. The Commission hereby approves the terms and conditions of the proposed issuance and exchange of bonds as herein authorized, and Southern California Gas Company hereby is authorized to issue not exceeding \$107,202,000 in principal amount of first mortgage

bonds, of several series, in exchange for a like amount of bonds of said series presently outstanding, and Southern Counties Gas Company of California hereby is authorized to issue not exceeding \$49,750,000 in principal amount of first mortgage bonds, of several series, in exchange for a like amount of bonds of said series presently outstanding.

4. Applicants shall file with the Commission four conformed copies of each of said supplemental indentures as actually executed, such filing to be made within 30 days after execution of the indentures.

5. The effective date of this order is 20 days after the date hereof.

Dated at San Francisco, California, this 9th day of Aug., 1955.

[Signature]
 President

[Signature]
[Signature]
[Signature]
[Signature]
 Commissioners