ANNUAL REPORT
OF
SOUTHERN CALIFORNIA
GAS COMPANY

For the year ended December 31
1939

THE SOLE PURPOSE OF THIS REPORT IS TO GIVE PRESENT SHAREHOLDERS INFORMATION ABOUT THEIR COMPANY. THIS REPORT IS NOT A REPRESENTATION OR PROSPECTUS OR CIRCULAR IN RESPECT OF ANY STOCK OR BOND OF THIS CORPORATION, AND IT IS NOT TRANSMITTED EITHER IN CONNECTION WITH ANY SALE OR OFFER TO SELL OR BUY ANY STOCK OR SECURITY NOW OR HEREAFTER TO BE ISSUED, OR IN CONNECTION WITH ANY PRELIMINARY NEGOTIATION FOR SUCH SALE OR PURCHASE.
SOUTHERN CALIFORNIA GAS COMPANY
810 South Flower Street
Los Angeles, California

DIRECTORS
A. C. BALCH     HAROLD JANSS     R. W. MILLER
F. M. BANKS     A. B. MACBETH     WILLIAM MOELLER, JR.
LEROY M. EDWARDS H. L. MASSER     STUART O'MELVENY
STANLEY W. GUTHRIE BEN R. MEYER     T. J. REYNOLDS
W. E. HOUGHTON   C. O. G. MILLER     F. S. WADE

OFFICERS
F. S. WADE . . . . President and General Manager
H. L. MASSER . . . . Executive Vice President
R. W. MILLER . . . . Vice President
LEROY M. EDWARDS, Vice President and Special Counsel
W. E. HOUGHTON . . . . Vice President
T. J. REYNOLDS . Vice President and General Counsel
WILLIAM MOELLER, JR. . Vice President
F. M. BANKS . . . . Vice President
F. E. SEAVER . . . . Secretary
E. N. SIMMONS . . . . Comptroller
L. D. ROMIG . . . . Treasurer
R. R. BLACKBURN . . . . Assistant Secretary
R. D. MCGUIRE . . . . Assistant Secretary
L. B. WILSON . . . . Assistant Treasurer
H. L. PHELPS . . . . Assistant Treasurer

REGISTRARS OF 6% SERIES A CUMULATIVE PREFERRED STOCK
American Trust Company   Irving Trust Company   Security-First National Bank*
San Francisco, California New York, N. Y. Los Angeles, California

TRANSFER AGENTS OF 6% SERIES A CUMULATIVE PREFERRED STOCK
Pacific Lighting Corporation Manufacturers Trust Company Office of the Company†
San Francisco, California New York, N. Y. Los Angeles, California

* Also Registrar of 6% Cumulative Preferred Stock.
† Also Transfer Agent of 6% Cumulative Preferred Stock.
TO THE SHAREHOLDERS:

THIS REPORT for the year 1939, together with the certified Balance Sheet and Statements of Income and of Surplus, covers the highlights of the seventy-third year of operations of your Company.

Earnings for 1939 showed a marked decline in net income compared with the previous year. This was due primarily to the weather prevailing during the fall months, to the rate reduction which became effective last July 1st, and to increased operating expenses.

The certified Statement of Income for the 12 months ended December 31, 1939, shows net income of $5,458,239, a decrease of $615,480, or 10%, from comparative earnings of $6,073,719 for the 12 months ended December 31, 1938.

The total number of independent active gas meters in service was 727,150 as of December 31, 1939, an increase for the year of 25,190, or 4%, which represents the greatest increase in the number of customers during any year since 1927.

REVENUES

Gross operating revenues for 1939 totaled $34,709,270, compared with $34,682,315 for 1938. Despite the substantial increase in the number of active meters and the colder-than-average weather during the early months of the year, the unusually warm weather prevailing during the remainder of the year reduced customer demands for gas heating. The decline in industrial and miscellaneous revenues, together with the rate reduction of $1,303,000 a year which became effective July 1st last, also acted to offset, to a great extent, the favorable factors.

Since 1929, your Company has made several reductions in rates, following informal proceedings before the California Railroad Commission. The combined reductions, it is estimated, reduce the annual bills of our customers by more than $6,300,000, as compared with the rates in effect in 1929.
SOUTHERN CALIFORNIA GAS COMPANY

OPERATING EXPENSES

Operating expenses, maintenance and repairs, amounting to $18,676,394 for 1939, showed an increase of $656,999 over the 1938 total, which for the most part is due to a larger payroll. The increase in number of customers, a broadened service policy requiring the hiring of additional employees, and the practice of the management in maintaining wages at a level consistent with the best representative annual wages for the same kinds of work prevailing in the communities served, have resulted in a total payroll for 1939 of $8,478,574, an increase of $570,836 over the 1938 payroll.

The number of regular employees was 4,332 as of December 31, 1939, as compared with 4,058 at the end of 1938. In addition, on December 31, 1939, there were 310 temporary employees, as compared with 530 in that classification at the end of 1938.

TAXES

Federal, state and local taxes chargeable to 1939 operations exceeded those of the previous year by nearly $70,000 and reached a new peak of $5,012,492. This is equivalent to an average of $7.11 per customer served, or an outlay of $13,700 per day. Taxes for last year represented 14.4% of gross revenues, compared with 14.2% in 1938.

PROVISION FOR RETIREMENTS

During 1939, $4,140,709 was accrued as a provision for retirement of depreciable property, as compared with $4,251,576 for 1938. The reserve for retirements showed a balance of $41,073,392 on December 31, 1939, as opposed to a balance of $50,295,241 at the close of 1938.

In addition to routine retirements of property, there was an extraordinary charge made to the retirement reserve of $12,342,265, representing a write-off of intangible assets in the amount of $7,166,696, and tangible fixed assets amounting to $5,175,569.

Provision for retirement of operating property had for many years been made by your Company in such annual amounts as the management deemed necessary and proper, considering estimated service lives and condition of the various classes of property, the balance in the reserve and the volume of business. Contrasted with Southern California Gas Company accounting procedure, the former Los Angeles Gas and Electric Corporation, merged with your Company in 1937, had consistently followed the sinking-fund method of accruals.

The Railroad Commission of the State of California uses the sinking-fund method to compute allowances for depreciation for rate making purposes. During 1939 your Company made studies of the general retirement reserve on a sinking-fund basis, giving consideration to the estimated service lives and condition of the property, and adopted the sinking-fund method for computing provisions, effective January 1, 1939. These
studies established the fact that the reserve balance at the beginning of the year was substantially in excess of requirements and ample to permit the charge of $12,342,265 mentioned above, and yet leave a balance more than adequate to meet reserve requirements.

ADDITIONS, BETTERMENTS AND REPLACEMENTS

A total of $4,924,066 was expended for additions, betterments and replacements during 1939, compared with $3,851,352 in 1938.

Construction of 30 miles of main to supply Crestline and other San Bernardino mountain resort communities was completed during the year at a cost of approximately $140,000. At present your Company is supplying 358 customers in these communities and it is expected that they will number more than 1,000 out of a total of 1,500 potential customers within the next three years.

Two commercial offices in the Los Angeles area were completed. Two distribution headquarters also were completed, one at Beverly Hills, and the other at San Bernardino. Various transmission lines were constructed to reinforce delivery capacities from oil fields in the San Joaquin Valley and the Los Angeles Basin, as well as necessary extensions and replacements of distribution mains and services.

Your Company's 1940 construction program for additions, betterments and replacements contemplates an expenditure of approximately $6,000,000.

NATURAL GAS SUPPLY

Continued developments and discoveries by oil companies in 1939 made further additions to the known natural gas reserves in California available for present and future requirements of gas company customers.

Large additional acreage was proven by new wells drilled in a deeper zone at the Kettleman Hills North Dome field and at the Cole's Levee field. More gas is now available from the Los Angeles Basin fields than at any time since 1930, as a result of extensive drilling campaigns in several of the existing fields.

Utilization of natural gas for the state as a whole was greater than for the previous year. During 1939, of all gas produced 91.6% was delivered for utilization to pipeline systems of both gas and oil companies, as a result of the continued voluntary curtailment program of the oil industry. In 1938, of all gas produced 90.3% was utilized.

Your Company is now receiving natural gas from 44 oil and gas fields.

UNIFORM PENSION AND BENEFIT PLAN

During 1939 the Company continued its contributions to the Uniform Pension and Benefit Plan established in 1932. No revisions or amendments to the Plan were made during the year.
SOUTHERN CALIFORNIA GAS COMPANY

By the end of 1939, a total of 248 employees had been provided with pensions; 302 employees whose non-occupational illnesses or accident disabilities were of ninety days or more duration had received disability benefits; and the beneficiaries of 165 employees and pensioners had received the proceeds from life insurance provisions.

MANAGEMENT

The late Addison B. Day, Chairman of the Board, and A. B. Macbeth, President and General Manager, retired from active duty on September 1, 1939, in accordance with the terms of the Uniform Pension and Benefit Plan. Mr. Macbeth, who has been affiliated with your Company since 1914, continues as a Director.

The death of Addison B. Day on November 28, 1939, after forty-five years of active service with your Company and its predecessors, is reported here with the deepest regret. In testimony of their esteem and regret, the Board of Directors on December 20, 1939, unanimously adopted the following resolution:

"NOW, THEREFORE, BE IT RESOLVED, that with a high appreciation of the business ability which he brought to the discharge of every duty connected with this Company, with a grateful sense of the manifold services rendered by him to the Company, as an Officer and Director, with a deep regard for the integrity and honesty of his character, and the further appreciation of his sense of justice and charity in all his dealings with his fellow men, and with an intimate memory of his genial character as an associate, the members of this Board of Directors do here record their highest regards for his noble character."

On August 29, F. S. Wade was elected President and General Manager, and the position of Chairman of the Board was left vacant. Mr. Wade has been identified with this Company and its predecessors for 35 years, having been employed by the Los Angeles Gas and Electric Company in 1905. He continues as President of the Southern Counties Gas Company of California (affiliated with your Company through Pacific Lighting Corporation), which position he has held for many years.

SALES PROMOTION

With the volume of residential construction in Southern California in 1939 at a new high level for the last ten years, sales of gas appliances through dealers and Company outlets showed a substantial increase over 1938.

The total dwelling units completed during 1939 in the territory served numbered 31,413, compared with 21,144 in 1938, an increase of 48.5%. Aggressive sales activity of your Company, in cooperation with gas appliance manufacturers and dealers, resulted in the installation of new gas appliances for cooking, water heating and house heating in
practically all the new homes built last year, as well as in the replacement of old appliances in other homes.

For example, a summer heating campaign conducted during July and August resulted in the sale of more than twice as many heating units as were sold during the same period in 1938. This was the fourth year that such a campaign had been successfully undertaken with the objective of improving "off season" furnace sales.

In the refrigeration field, sales of the Servel gas refrigerator, competing with a large number of makes of electric refrigerators, showed an increase of more than 42% over 1938. The wide public acceptance of this product is indicated by the fact that, of all new refrigerators installed in new homes last year, 27.3% were Servel refrigerators.

During 1938, leading gas appliance manufacturers introduced new "Certified Performance" gas ranges, exceeding in performance, efficiency and beauty any other cooking appliance thus far produced. During 1939, a major proportion of all "Certified Performance" ranges sold in the United States were marketed in Southern California.

The volume of gas appliances sold through all outlets in the territory served by this Company was approximately as follows:

- Ranges: 73,600
- Water Heaters and Refrigerators: 93,300
- Central Heating Plants and Floor Furnaces: 20,600
- Space Heaters: 88,000

To enable customers to buy gas appliances on the instalment plan, your Company continued its policy of carrying such paper to the extent that 13,680 contracts were financed in 1939. Arrangements also have been made with the Bank of America whereby customers can designate that agency to finance their purchases. During the year, the Bank accepted 12,290 contracts.

For the Board of Directors,

F. S. Wade, President and General Manager.
**ASSETS**

**PLANT PROPERTIES** (including $970,189.73 franchises and intangibles) $131,464,424.56

**INVESTMENTS IN SECURITIES** (at cost) 41,019.23

**CURRENT ASSETS:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$1,764,242.60</td>
</tr>
<tr>
<td>Accounts and notes receivable:</td>
<td></td>
</tr>
<tr>
<td>Regular</td>
<td>$2,618,645.61</td>
</tr>
<tr>
<td>Instalment</td>
<td>4,308,772.59</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,927,418.20</td>
</tr>
<tr>
<td>Less reserve</td>
<td>311,558.27</td>
</tr>
<tr>
<td><strong>Materials and supplies</strong> (including construction materials) —at cost</td>
<td>1,419,373.17</td>
</tr>
<tr>
<td><strong>Deferred Charges:</strong></td>
<td></td>
</tr>
<tr>
<td>Unamortized bond discount and expense</td>
<td>$1,006,905.20</td>
</tr>
<tr>
<td>Net discount on preferred capital stock</td>
<td>1,702,187.14</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>162,813.61</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$144,176,825.44</td>
</tr>
</tbody>
</table>

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8
**GAS COMPANY in California**

**DECEMBER 31, 1939**

**LIABILITIES**

**CAPITAL STOCK:**
- **Preferred:**
  - 6% cumulative—Old series (authorized, 160,000 shares of $25.00 each; outstanding, 159,956 shares) $ 3,998,900.00
  - 6% cumulative—Series A (authorized, 2,240,000 shares of $25.00 each; outstanding, 783,032 shares) 19,575,800.00
- **Common** (authorized, 1,600,000 shares of $25.00 each; outstanding, 1,152,000 shares) 28,800,000.00 $ 52,374,700.00

**FUNDED DEBT—FIRST MORTGAGE AND REFUNDING BONDS:**
- 4½% series, due March 1, 1961 $12,500,000.00
- 4% series, due August 1, 1965 15,000,000.00 27,500,000.00

**CURRENT LIABILITIES:**
- Accounts payable $ 1,904,816.95
- Due to Pacific Lighting Corporation 191,209.45
- Accrued bond interest 437,300.00
- Taxes payable and accrued 3,782,607.52
- Dividends payable 353,622.46
- Customers’ deposits and construction advances 588,536.63 7,258,293.01

**DEFERRED CREDIT—Unearned carrying charges on instalment accounts** 709,966.51

**RESERVES:**
- Retirements $41,073,392.19
- Insurance 1,847,418.49
- Contingencies 947,277.56 43,868,088.24

**CAPITAL SURPLUS:**
- Premium on common capital stock $ 2,400,000.00
- Donations in aid of construction 2,426,234.77 4,826,234.77

**EARNED SURPLUS**

| Total | 7,639,542.91
|-------|-------------------
|-------|-------------------|

**NOTES:** Investments in securities include $30,632.31, representing the cost of securities deposited with the Treasurer of the State of California in connection with the issuance of a certificate of self-insurance as required by the Workmen’s Compensation Insurance and Safety Act.

Instalment accounts receivable include approximately $1,825,000 due subsequent to 1940.

At December 31, 1939, the Company had a contingent liability of approximately $2,000,000 as guarantor on instalment accounts financed by bank.
SOUTHERN CALIFORNIA GAS COMPANY

STATEMENT OF INCOME AND EARNED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1939

GROSS OPERATING REVENUE................................................................................. $34,709,269.64

DEDUCT:

- Operating expenses.........................$17,525,886.82
- Maintenance and repairs.................1,150,507.50
- Taxes (including Federal taxes on income) 5,012,491.59
- Provision for retirements..............4,140,708.78

NET OPERATING REVENUE.......................................................... $ 6,879,674.95

LESS NON-OPERATING INCOME CHARGES (net) .................................................. 17,558.40

REMAINDER ................................................................................. $ 6,862,116.55

DEDUCT:

- Bond interest ..........................................................$ 1,162,500.00
- Amortization of bond discount and expense 231,156.84
- Other interest ......................................................... 14,755.55

Total ................................................................. $ 1,408,412.39
Less interest charged to construction ........4,554.67

NET INCOME ............................................................................... $ 5,458,238.83

EARNED SURPLUS, JANUARY 1........................................................................... 6,852,129.88

SURPLUS CREDITS:

- Adjustment of reserve for losses on instalment accounts $ 775,626.42
- Unclaimed customers' refunds .................. 221,596.27
- Forfeited construction advances applicable to property retired 2,822.03
- Miscellaneous ..................................................... 5,027.94

Total ............................................................................... $13,115,441.37

SURPLUS CHARGES:

- Dividends—Cash:
  Preferred (6% cumulative):
    Old series ......................................................... $ 239,936.20
    Series A ............................................................. 1,174,553.18
  Common ............................................................. 4,032,000.00
  Miscellaneous ..................................................... 294,009.08

EARNED SURPLUS, DECEMBER 31........................................................... $ 7,639,542.91

NOTE: It has been the practice of the Railroad Commission of the State of California to employ the sinking-fund method in computing provision for depreciation for purposes of rate making in respect of the Company, although the Company, as to a substantial part of its plant properties, has employed other methods in determining such provision in its accounts. During 1939 the Company made studies of the adequacy of the general retirement reserve on a sinking-fund basis in the light of presently known conditions and service lives and adopted the sinking-fund method for use in computing provisions. This change in practice had no material effect on the income for the year. The studies, however, showed that the balance in the general retirement reserve was substantially greater than required and there were written off directly against such differential intangibles in the amount of $7,166,696.47; this transaction does not appear in the above statement.
SOUTHERN CALIFORNIA GAS COMPANY

STATEMENT OF CAPITAL SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1939

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium on Common Capital Stock — Balance, January 1 and December 31</td>
<td>$2,400,000.00</td>
</tr>
<tr>
<td>(no change during the year)</td>
<td></td>
</tr>
</tbody>
</table>

| Donations in Aid of Construction:                                         |              |
| Balance, January 1                                                        | $2,402,097.47|
| Advances for main extensions forfeited during the year, and               | 26,959.33    |
| advances for service installations, etc.                                  |              |
| Total                                                                     | $2,429,056.80|
| Less advances applicable to property retired                             | 2,822.03     |
| Balance, December 31                                                      | 2,426,234.77 |

Total Capital Surplus, December 31                                        $4,826,234.77

ACCOUNTANTS' CERTIFICATE

SOUTHERN CALIFORNIA GAS COMPANY:

We have examined the balance sheet of Southern California Gas Company as of December 31, 1939 and the statements of income and surplus for the year ended that date, have reviewed the system of internal control and the accounting procedures of the Company, and have examined or tested its accounting records and other supporting evidence by methods and to the extent we deemed appropriate.

In our opinion, the accompanying balance sheet and related statements of income and surplus fairly present the financial condition of the Company at December 31, 1939 and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles, which were followed by the Company on a basis consistent with that of the preceding year except for the change in method of providing for retirements as set forth in the footnote to the statement of income and earned surplus.

Los Angeles, March 15, 1940.

HASKINS & SELLS
## SOUTHERN CALIFORNIA GAS COMPANY

### STATISTICS

#### GAS METERS (INDEPENDENT ACTIVE):

<table>
<thead>
<tr>
<th></th>
<th>1939</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic and Commercial</td>
<td>24,935</td>
<td>696,966</td>
</tr>
<tr>
<td>Industrial and Gas Engine</td>
<td>2,215</td>
<td>1,994</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>27,150</td>
<td>708,960</td>
</tr>
</tbody>
</table>

#### Year ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>1939</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic and Commercial</td>
<td>39,051,355,000</td>
<td>38,124,899,000</td>
</tr>
<tr>
<td>Butane (natural gas equivalent)</td>
<td>22,254,000</td>
<td>23,010,000</td>
</tr>
<tr>
<td>Industrial and Gas Engine</td>
<td>36,349,230,000</td>
<td>35,418,522,000</td>
</tr>
<tr>
<td>Wholesale</td>
<td>2,013,993,000</td>
<td>1,944,432,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>77,436,830,000</td>
<td>75,510,863,000</td>
</tr>
</tbody>
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#### GAS MAINS (MILES):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production and Gathering</td>
<td>199.15</td>
</tr>
<tr>
<td>Transmission</td>
<td>812.16</td>
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<tr>
<td>Distribution</td>
<td>8,240.44</td>
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<tr>
<td><strong>Total</strong></td>
<td>9,251.75</td>
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</table>

#### GAS STORAGE CAPACITY (CUBIC FEET):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 1939</th>
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</thead>
<tbody>
<tr>
<td>Low Pressure holders</td>
<td>97,798,800</td>
</tr>
<tr>
<td>High pressure holders</td>
<td>806,440</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>98,605,240</td>
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#### COMPRESSOR STATIONS (HORSEPOWER):

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Field stations</td>
<td>14,804</td>
</tr>
<tr>
<td>Distribution stations</td>
<td>47,948</td>
</tr>
</tbody>
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#### GAS PLANTS (DAILY CAPACITY—CUBIC FEET):

<table>
<thead>
<tr>
<th></th>
<th>December 31, 1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas manufacturing plants</td>
<td>105,032,600</td>
</tr>
<tr>
<td>Butane gasifying plants</td>
<td>232,500</td>
</tr>
</tbody>
</table>

#### NUMBER OF EMPLOYEES

<table>
<thead>
<tr>
<th></th>
<th>December 31, 1939</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4,642</td>
</tr>
</tbody>
</table>

#### AREA SERVED:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 1939</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of cities, towns and communities</td>
<td>134</td>
</tr>
<tr>
<td>Population of area (estimated)</td>
<td>3,000,000</td>
</tr>
</tbody>
</table>