

Decision No. 23028

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SOUTH COAST GAS COMPANY, )  
a corporation, to sell, and San Diego )  
Consolidated Gas and Electric Company, )  
a corporation, to buy, all of the )  
physical property and assets of said )  
South Coast Gas Company. )

Application No. 16918

Chickering and Gregory, by Allen L. Chickering  
and W. C. Fox, for San Diego Consolidated  
Gas and Electric Company;

Paul Overton and W. C. Kennedy, for South  
Coast Gas Company.

BY THE COMMISSION:

OPINION

In this proceeding the Commission is asked to enter its order authorizing South Coast Gas Company to sell its physical property and assets described in Exhibit No. 1 to San Diego Consolidated Gas and Electric Company, and the execution and delivery of the necessary deeds, assignments, conveyances and transfers to effect the sale of the said property and assets, pursuant to Section 51 of the Public Utilities Act, and to approve the purchase and sale of said property and assets.

The South Coast Gas Company is a corporation organized and existing under and by virtue of the laws of the State of California and is engaged in the business of manufacturing and distributing artificial gas for domestic, commercial and other purposes in and about the City of Oceanside.

The historical cost of the properties of South Coast Gas Company is reported at \$169,802.60, which cost is segregated as follows:

	<u>Aug. 31, 1930</u>
Organization and Franchises.....	\$ 5,406.01
Land Devoted to Production Operations.....	5,694.97
Gas Plant Buildings.....	5,853.25
Boiler Plant Equipment.....	6,384.74
Gas Production Equipment.....	25,893.74
Gas Storage Equipment.....	18,447.13
Misc. Production Equipment.....	553.56
Distribution Station Equipment.....	175.70
Distribution Mains.....	69,203.46
District Regulators and Meters.....	435.44
Gas Services.....	11,054.59
Consumers Meters and Regulators.....	3,688.92
Installations on Consumers Premises.....	5.45
Miscellaneous Distribution Equipment.....	444.97
General Office Equipment.....	1,664.03
General Shop Equipment.....	711.06
General Transportation Equipment.....	540.66
General Miscellaneous Equipment.....	667.33
Engineering and Superintendence.....	2,142.95
Taxes During Construction.....	31.14
Insurance During Construction.....	512.73
Miscellaneous Construction Expenditures.....	585.95
Construction in Progress.....	1,212.99
Undistributed Construction.....	2,423.17
Overhead expenses to be added to construction work in progress.....	242.60
Materials and supplies.....	<u>825.56</u>
Total.....	<u>\$169,802.60</u>

It is of record that the depreciation reserve of the South Coast Gas Company, had such reserve been calculated by the usual method, would be \$6,764.38.

The gas plant of the South Coast Gas Company was installed during 1927 and was operated for four months during that year. The following tabulation appearing in Exhibit No. 3 shows the revenues and expenses for 1928 and 1929, and the estimate for 1930 under existing rates and the estimate for 1931 under rates which San Diego Consolidated Gas and Electric Company may put into effect during that year:

<u>GROSS REVENUE</u>	<u>1928</u>	<u>1929</u>	<u>1930</u>	<u>1931</u>
Gas Sales.....	\$26,423.03	\$34,002.73	\$40,423.00	\$36,000.00
Rent of Appliances.....	64.70	109.67	70.00	-
Merchandise & Jobbing Revenue:	1,173.80	1,421.77	690.00	-
Total Revenue.....	27,665.53	35,534.17	41,183.00	36,000.00
<u>OPERATING EXPENSES</u>				
Production.....	10,791.64	15,406.20	15,150.00	9,305.00
Distribution.....	1,786.22	4,262.72	4,180.00	5,220.00
Commercial.....	4,144.26	3,026.68	3,075.00	1,940.00
New Business.....	1,290.15	2,022.82	223.00	500.00
General.....	4,365.01	4,539.02	2,058.00	1,400.00
Taxes.....	235.25	1,356.33	2,665.00	3,022.00
Total Operating Expenses	22,612.53	30,669.77	28,011.00	21,453.00
Less Indirect Charges to Construction.....	-	1,430.71	-	-
Net Operating Expenses.	22,612.53	29,239.06	28,011.00	21,453.00
Depreciation (Estimated on 6% Sinking Fund Basis).....	1,765.65	2,734.41	2,967.00	3,997.00
Operating Expenses Including Depreciation.....	24,378.18	31,973.47	30,978.00	25,450.00
Net Revenue after Depreciation:	3,288.35	3,560.70	10,205.00	10,550.00

It appears from the record that San Diego Consolidated Gas and Electric Company upon acquiring the properties of South Coast Gas Company will extend a transmission line from North Encinitas to Carlsbad and there connect with the lines of the South Coast Gas Company. Upon the completion of this line, it will put into effect a rate schedule which it is estimated will reduce the consumers' gas bills by about \$3,000.00.

It appears from Exhibit No. 1 that San Diego Consolidated Gas and Electric Company has agreed to pay for the properties of the South Coast Gas Company \$211,500.00, plus the cost of additions and betterments. No evidence was submitted to justify such a price. While applicants ask the Commission to approve the purchase and sale of the properties, the order herein will authorize such sale without approving

the sale price. Upon acquiring the properties, we do not believe that the San Diego Consolidated Gas and Electric Company should charge to its fixed capital accounts and materials and supplies more than \$169,802.60, plus or minus adjustments because of additions and betterments or retirements since August 31, 1930. The amount charged to fixed capital accounts shall be offset by a depreciation reserve of \$6,764.38, leaving as of August 31, 1930, a net cost of \$163,038.22. The difference between what the San Diego Consolidated Gas and Electric Company pays for the properties and said net cost adjusted because of additions and betterments or retirements, should be forthwith charged to Account No. 508, "Miscellaneous debits to profit and loss", or should be charged to Account No. 133, "Extraordinary deferred charges", and amortized by five equal annual charges to said Account No. 508, "Miscellaneous debits to profit and loss."

It has been urged that the South Coast Gas Company since its operation has failed by the amount of about \$19,000.00 to earn seven and one-half percent on the investment in its properties. It is felt by the purchaser that in view of this situation, the \$19,000.00 represents development cost or going concern value and should be capitalized. Were the South Coast Gas Company to retain its properties, instead of selling them, it would not be permitted to charge to capital accounts the amount by which it has failed to earn a seven and one-half percent return. We know of no reason why the transfer of the properties should result in such a charge to fixed capital accounts on the books of the purchasing company.

#### ORDER

The Railroad Commission having been asked to enter its order, as indicated in the foregoing opinion, a public hearing having

been held before Examiner Fankhauser and the Commission having considered the evidence submitted at such hearing and being of the opinion that this application should be granted, as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

(1) South Coast Gas Company and San Diego Consolidated Gas and Electric Company may, on or before December 15, 1930, execute and deliver the necessary deeds, assignments, conveyances and transfers to effect the sale, pursuant to Section 51 of the Public Utilities Act, of the properties which South Coast Gas Company has agreed to sell to San Diego Consolidated Gas and Electric Company in the agreement filed in this proceeding as Exhibit No. 1, which sale is hereby authorized.

(2) If San Diego Consolidated Gas and Electric Company pays more for the properties than the net historical cost of said properties determined as indicated in the foregoing opinion, it must charge forthwith such excess purchase price to Account No. 508, "Miscellaneous debits to profit and loss", or charge the same to Account No. 133, "Extraordinary deferred charges", and amortize the same by five equal annual charges to said Account No. 508, "Miscellaneous debits to profit and loss."

(3) The consideration which San Diego Consolidated Gas and Electric Company has agreed to pay for the properties of South Coast Gas Company shall not be considered as determining the value of said properties for the purpose of fixing rates, issuing securities or for accounting purposes.

(4) The authority herein granted to sell the aforesaid properties will become effective upon the date hereof. For all other purposes, this order shall become effective twenty days after the date hereof.

DATED at San Francisco, California, this 31st day of October, 1930.

Clarence  
Ernest  
Leon White  
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Commissioners.