

Decision No. _____

ORIGINAL

Decision No. 5424

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

--oOo--

In the Matter of the Application of	:	
WESTERN FUEL GAS AND POWER COMPANY	:	
and SOUTHERN CALIFORNIA GAS COMPANY	:	Application
for an order authorizing the sale by	:	<u>No. 3448</u>
the former to the latter company of	:	
a gas distributing system and fran-	:	
chises.	:	

R. E. Matteson for Western Fuel Gas and Power Company.
O'Melveny, Milliken & Tuller by R. B. Reppy for
Southern California Gas Company.

EDGERTON, Commissioner

O P I N I O N

Western Fuel Gas and Power Company asks author-
ity to sell for \$150,000 its gas generating and distri-
bution system including its franchises, office furniture,
stores, accounts receivable, etc. to Southern California
Gas Company. The purchasing company joins in the appli-
cation. Of the purchasing price, the Southern Califor-
nia Gas Company proposes to pay \$30,360. in cash,
\$80,640. through the issue of \$84,000. of its first
mortgage 6 per cent bonds and \$39,000. through the issue

of a ten year serial non-interest bearing note having a face value of \$39,000.

Western Fuel Gas and Power Company was organized on or about April 10, 1902. The company has an authorized stock issue of \$30,000. of which \$22,501. is reported outstanding. Of the outstanding stock, the Estate of J. H. Spires owns \$22,485.. The company has no bonded indebtedness. Its current liabilities are reported at \$136,701.81. of which \$127,669.04 represents advances and accrued interest thereon payable to the Estate of J. H. Spires.

Western Fuel Gas and Power Company owns a gas generating plant in the City of Hermosa Beach and owns and operates a gas distributing system in the cities of Redondo Beach, Manhattan Beach and Hermosa Beach, Los Angeles County. W. J. Hammond, assistant engineer in the gas and electric division of the Railroad Commission, estimates the reproduction cost new of the properties of Western Fuel Gas and Power Company as of October 1, 1917 at \$189,123. and the reproduction cost new less depreciation at \$147,697.. These figures include \$12,000. allowed for land which the Southern California Gas Company does not propose to acquire. The figures do not include any allowance for current assets other than materials and supplies.

Since 1912, the Western Fuel Gas and Power Company has been purchasing natural gas from the

Southern California Gas Company. The introduction of natural gas has rendered the generating plant of the Western Fuel Gas and Power Company obsolete. The investment in the generating plant is estimated by the parties to this proceeding at \$44,000., the salvage value of \$5,000. leaving a loss of \$39,000.. Against the generating plant, Southern California Gas Company would issue a ten year non-interest bearing serial note for \$39,000. payable in monthly installments of \$325. each. Should it realize more than \$5,000. from the sale of the generating plant, any amount in excess of \$5,000. will be applied to the payment of the last installments on the note.

From the records on file with the Railroad Commission, it appears that the properties of Western Fuel Gas and Power Company during the past few years have been operated at a loss. The loss is in part due to the leakage following the introduction of natural gas. The company has been endeavoring to overcome this leakage, but thus far has not been able to reduce it to normal.

Southern California Gas Company proposes to continue in effect the rates now charged by Western Fuel Gas and Power Company until such time as the efficiency in operation, the reduction in leakage and the increased business warrant a decrease

in the rates. Officials of Southern California Gas Company are of the opinion that a reduction in rates will be possible in the future under their management, but this can hardly be expected were the present conditions to prevail. Inasmuch as it appears that the properties of the Western Fuel Gas and Power Company have for some time past been operated at a loss, that the generating plant of the company has been rendered obsolete through the introduction of natural gas, that the public has benefited through the introduction of natural gas because of its greater heat units, that the Southern California Gas Company because of its larger operations and organization will be able to introduce economies and bring about greater efficiency that will perhaps justify a decrease in rates, I believe that the purchasing company should be permitted to amortize the value of the generating plant as outlined in this application and issue in payment for the generating plant a ten year non-interest bearing serial note for \$39,000. payable in monthly installments of \$325. each.

Southern California Gas Company proposes to pay for the distribution system and properties of Western Fuel Gas and Power Company, other than its generating system, \$111,000.. Of this amount, it intends to pay \$30,360. in cash and \$80,640. through the issue of \$84,000. of its first mortgage six per cent bonds payable November 1, 1950. The selling

corporation has agreed to accept these bonds at 96. Viewed as a separate entity, I do not believe that the properties of Western Fuel Gas and Power Company, as now existing and being operated, would justify the creation of \$84,000 bonded indebtedness. However, if this transaction is consummated, the properties will no longer be a separate entity but become a part of the properties of Southern California Gas Company. The lien of the mortgage of Southern California Gas Company extends to all of its properties owned on November 1, 1910, the date of the mortgage, as well as to those acquired subsequent thereto. The earnings of Southern California Gas Company appear to be adequate to enable the company to pay the interest on the \$84,000 of bonds which it now desires to issue.

I herewith submit the following form of order.

ORDER

Western Fuel Gas and Power Company and Southern California Gas Company having filed with the Railroad Commission the petition herein as appears in the opinion which precedes this order, a hearing having been held and the Commission being of the opinion that the money, property or labor to be procured or paid for through the issue of bonds is reasonably required for the purpose of purposes specified in the order and that such purpose or purposes are not in whole or in part

reasonably chargeable to operating expenses or to income.

IT IS HEREBY ORDERED that Western Fuel Gas and Power Company be, and it is hereby granted authority to sell its entire gas generating and distributing system, including its franchises and office furniture, stores, accounts receivable, etc. to Southern California Gas Company for the sum of \$150,000..

IT IS HEREBY FURTHER ORDERED that Southern California Gas Company be, and it is hereby granted authority to issue \$84,000 face value of its first mortgage six per cent bonds due and payable November 1, 1950, at not less than 96 per cent of their face value plus accrued interest, as part payment for the properties herein authorized to be acquired.

IT IS HEREBY FURTHER ORDERED that Southern California Gas Company be, and it is hereby granted authority to issue a ten year serial non-interest bearing note for the principal sum of \$39,000 payable in monthly installments of \$325. each, said note to be issued in part payment for the properties herein authorized to be acquired.

The authority herein granted is granted upon the following conditions and not otherwise:

- (1) Before this order shall become effective Southern California Gas Company shall file with the Railroad Commission a stipulation duly authorized by its board of directors agreeing that neither it, its successors or

assigns will ever claim before the Railroad Commission or other regulatory body a value for the franchises to be acquired from Western Fuel Gas and Power Company in excess of the actual cost of such franchises to Western Fuel Gas and Power Company, said stipulation to show the amount paid for such franchises by Western Fuel Gas and Power Company, and shall have received from the Railroad Commission a supplemental order declaring that such stipulation satisfactory in form has been filed with the Railroad Commission.

(2) The purchase price of the properties herein authorized to be sold and transferred shall never be urged before the Railroad Commission or other regulatory body as a measure of the value of said property for rate-fixing or purposes other than this proceeding.

(3) If the Southern California Gas Company shall realize more than \$5,000. from the sale of the generating plant and equipment acquired from Western Fuel Gas and Power Company, the amount in excess of said \$5,000. shall be applied to the payment of the last installments of the \$39,000 serial note herein authorized to be issued.

(4) Southern California Gas Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds from the sale of the bonds and note herein authorized to be issued, and on or before the twenty-fifth day of each month the company shall make verified reports to the Commission as required by the Commission's General Order Number 24, which order, in so far as applicable, is made a part of this order.

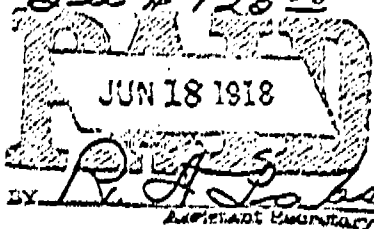
(5) The authority herein granted to issue bonds and a note shall not become effective until Southern California Gas Company has paid the fee prescribed by the Public Utilities Act.

(6) The authority herein granted to issue bonds and a note shall apply only to such bonds and note as may be issued on or before September 1, 1918.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California,
this 24th day of May, 1918.

Railroad Commission State of California



Max Thelen
Howard Land

Edwin O. Edgerton
Commissioners.