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Decision No. 6362.

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

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In the Matter of the Application of)
 SANTA BARBARA GAS AND ELECTRIC COMPANY)
 and)
 SOUTHERN CALIFORNIA EDISON COMPANY)
 for authority to sell certain gas)
 properties and franchises to)
 SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA;)
 and in the matter of the application of)
 SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA)
 for authority to purchase said properties)
 and to issue and sell bonds.)

Application
Number
4440.

Hunsaker, Britt & Edwards, by Leroy M. Edwards and
 Robert M. Clarke for Southern Counties
 Gas Company of California;
 Harry J. Bauer and William G. Griffith for Santa
 Barbara Gas and Electric Company and
 Southern California Edison Company;
 W.P. Butcher, for City of Santa Barbara;
 H.F. Orr, for City of Ventura;
 J.A. Galvin, for City of Fillmore;
 Adolph Zwirn in propria persona.

LOVELAND and BRUNDIGE, Commissioners.

O P I N I O N .

SANTA BARBARA GAS AND ELECTRIC COMPANY and SOUTHERN
 CALIFORNIA EDISON COMPANY ask permission to sell to SOUTHERN COUNTIES
 GAS COMPANY OF CALIFORNIA pursuant to the terms and conditions of
 Exhibit "A" attached to the petition herein, the properties described
 in applicants' Exhibits No. 6 and No. 7, as amended at the hearing
 held on April 28, 1919. SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA
 asks permission to purchase said properties, to exercise when ac-
 quired all of the franchises now owned and used by the selling cor-
 porations in connection with said properties, to operate said

properties pursuant to the terms and conditions of the agreement attached to the petition herein and marked Exhibit "B" and to issue and sell \$668,000 face value of its 5-1/2 per cent first mortgage bonds due May 1, 1936.

Southern California Edison Company owns a gas generating plant located at Ventura. The plant has a rated generating capacity of 300,000 cubic feet per day. The company's annual report for the year ending December 31, 1918, shows that it sold and distributed artificial gas at Ventura, Oxnard, Santa Paula and vicinity; that during 1918 it had 2,107 consumers; that it produced 85,308,000 cubic feet of artificial gas; that it sold 50,400,000 cubic feet, leaving 34,908,000 unaccounted for. The company intends to sell all of its gas properties, which for convenience will hereafter be referred to as the Ventura properties.

Santa Barbara Gas and Electric Company owns and operates an electric and gas generating and distributing system in Santa Barbara and vicinity. On December 31, 1918, the company reported \$400,900 of common and \$400,000 of 6 per cent preferred stock outstanding. All of the preferred and \$336,500 of the common stock is owned by the Southern California Edison Company. The report of the Santa Barbara Gas and Electric Company for the year ending December 31, 1918, shows that it owns an artificial gas generating plant having a capacity of 2,800,000 cubic feet per 24 hours; that during 1918 it produced 217,676,000 cubic feet of gas; that it sold 165,105,000 cubic feet, leaving 52,571,000 cubic feet unaccounted for, and that during 1918 it had 4,375 gas consumers. The Santa Barbara Gas and Electric Company, controlled through stock ownership by the Edison Company, asks permission to sell its artificial gas plant and distributing system at Santa Barbara and vicinity to the Southern Counties Gas Company of California. For convenience,

the gas properties of the Santa Barbara Gas and Electric Company will hereafter be referred to as the Santa Barbara properties.

The Edison Company desires to sell the Ventura and Santa Barbara properties for the reason that it intends to devote all of its attention to the operation of its electric properties and contemplates complete withdrawal from the gas business. The Southern Counties Gas Company of California requests permission to purchase the properties because it believes that through the introduction of natural gas in Ventura County and through a rehabilitation of the properties and development of the business, together with a possible introduction of natural gas at Santa Barbara, it can increase the sale of gas for domestic as well as for industrial purposes and can effect efficiencies and economies of benefit not only to itself but also to the gas consumers. Under an operating agreement between the Southern Counties Gas Company of California and the Edison and Santa Barbara companies, the Southern Counties is at present in charge of both the Ventura and Santa Barbara properties. Natural gas with a heat content of about 1250 instead of 570 British thermal units for artificial gas is being distributed in Ventura. It is our opinion that the public will be benefited by the proposed transfer, provided such transfer is made on reasonable terms.

Applicants in Exhibit No. 1 report the book cost of the Ventura properties at \$255,343.50. In their Exhibit No. 2, applicants report the book cost of the Santa Barbara properties at \$672,225.77. The book cost of the two properties is reported at \$927,569.27. In Exhibit No. 8, prepared by A.R. Kelley, valuation engineer, applicants report the historical cost of the Ventura properties at \$228,543.80, of the Santa Barbara properties at \$569,662.22, making a total of \$798,006.02. In Exhibit No. 9, also prepared by A.R. Kelley, applicants report the "cost to reproduce new less depreciation" of the Ventura properties at \$208,805.21, of

the Santa Barbara properties at \$578,102.69, making a total of \$786,907.90. In the same exhibit, the reproduction cost now, based on present prices, of the Ventura properties is reported at \$296,632.46, of the Santa Barbara at \$706,615.03, making a total of \$1,003,247.49. The Engineering Department of the Railroad Commission in the Commission's Exhibit No. 1, reports the "depreciated historical reproduction cost" of the Ventura properties at \$147,286.00, and that of the Santa Barbara properties at \$470,887.00, making a total of \$618,173.00. The \$618,173 is based upon the assumption that the artificial gas generating plant at Ventura will be continued in operation. Assuming that this plant will be dismantled because of the introduction of natural gas at Ventura, the engineers of the Commission estimate the "depreciated historical reproduction cost" of the two properties at \$603,905.00. The "depreciated historical reproduction cost" of the properties as found by the Commission's engineers takes into account the service condition of these properties, but only to a limited extent does it reflect the present high prices. Counsel for Southern Counties Gas Company of California at the hearing called the attention of the engineers of the Commission to the fact that they made no allowance in their appraisal for the cost of franchises obtained from the City of Santa Barbara and the City of Ventura. The cost of the Ventura franchise is reported at approximately \$1,500.00. Adding the cost of the franchises to the depreciated historical reproduction cost of the properties, as found by the Commission's engineers, makes a total of approximately \$620,000.00. No other exception than the omission of the cost of the franchises is taken to the appraisal submitted by the Commission's engineers. It should be stated, however, that this appraisal covers only the physical properties.

Applicants in Exhibit No. 3 report the operating revenues of the Ventura properties at \$64,172.29, while the operating expenses amounted to \$81,511.84, resulting in a loss from operation of \$17,339.55. In the same exhibit, the operating revenues of the Santa Barbara properties are reported for 1918 at \$173,375.16, the operating expenses at \$148,873.99 and the net operating revenues at \$24,501.17. The combined operating revenues of the two properties is reported at \$237,547.45, the combined operating expenses at \$230,385.83 and the net combined operating revenue at \$7,161.62. The operating expenses include no allowance for depreciation.

The properties which Santa Barbara Gas and Electric Company and Southern California Edison Company intend to sell to the Southern Counties Gas Company of California are described in Applicants' exhibits No. 6 and No. 7 as amended at the hearing on April 28, 1919. Southern Counties has agreed to pay \$825,000 for the properties free and clear of all encumbrances. The appraisal of the properties by the engineers of the Commission, an examination of their present physical condition and of the service rendered during the past year, together with a consideration of the past, present and prospective earnings, lead us to believe that the purchase price is somewhat excessive. If it were urged that the Commission, by authorizing the transfer of these properties at \$825,000, is bound to recognize the transfer price as a rate base, this application would have to be denied. Representatives of the Southern Counties believe that the properties are worth to it \$825,000. In arriving at such a conclusion, consideration was given not only to the physical condition of the properties but also to their prospective earning power. It is hoped that a sufficient supply of natural gas can be developed to serve the consumers of not only the Ventura properties, but also of the Santa

Barbara properties.

The stockholders of the Southern Counties Gas Company of California, acting through their corporate organization, are willing, according to the testimony herein, to pay \$825,000 for the properties. Southern Counties, however, intends to mortgage the properties which it will acquire as well as those now owned by it to the extent of \$668,000 for the purpose of raising part of the funds necessary to pay for the properties. We are willing to permit the Southern Counties, if it so desires, to expend \$825,000 for the Ventura and Santa Barbara properties, because it is clear that the transfer will promote the public interest by providing an improved service, but we are of the opinion that the amount of bonds which may be issued by the Southern Counties to acquire these properties should not exceed \$620,000, an amount equivalent to the depreciated historical reproduction cost of the properties, as found by the Commission's engineers. The difference between the proceeds from the sale of the bonds and the purchase price of the properties should be paid by the stockholders of the Southern Counties either through appropriation of surplus earnings or through some other means which will not result in an increase in the permanent capitalization of the company.

The balance sheet of the Southern Counties Gas Company of California, as of February 28, 1919, shows the following:

ASSETS:

Tangible Property - Baehr inventory- less appreciation,	\$3,043,505.38
Additions since February 1, 1916,	1,448,749.30
Organization rights and franchises,	36,251.82
Additions since February 1, 1916 -franchises,	3,371.71
Materials and Supplies,	197,739.59
Accounts and Notes Receivable,	133,187.21
Cash and special deposits,	226,222.34
United States Bonds,	25,350.00
Payment on Stocks,	758,505.76
Unamortized Discount on Bonds, and Debentures,	231,721.43
Organization, taxes, insurance, etc.,	59,217.79
Total ASSETS,	\$6,163,822.33

LIABILITIES:

Common Stock,	\$1,500,000.00
First Mortgage 5 $\frac{1}{2}$ per cent Bonds,	3,563,000.00
2-year 6 per cent Debentures and Notes,	400,000.00
Notes and Accounts Payable,	169,333.78
Sundry Deposits,	62,224.30
Interest and Insurance Accrued,	77,593.73
Reserve for accrued depreciation,	93,321.76
Reserve for Amortization of Gas Plant,	3,083.76
Reserve for contingencies and inventory,	15,783.05
Surplus,	279,481.95
Total LIABILITIES,	\$6,163,822.33

The Edison Company will receive \$195,000 and the Santa Barbara Company \$630,000 of the purchase price. The \$195,000 will be used by the Edison Company to redeem \$172,000 of outstanding bonds issued by Ventura Water, Light and Power Company and \$23,000 issued by the Ventura County Power Company. The \$630,000 received by the Santa Barbara Gas and Electric Company, according to the records herein, will be deposited in a special trust fund pursuant to the terms of the mortgage securing the payment of the \$1,000,000 of outstanding Santa Barbara Gas and Electric Company bonds. The lien of these bonds covers not only the electric properties of the Santa Barbara Gas and Electric Company, but will also attach to the \$630,000 deposited in the special trust fund. Ultimately, the company intends to use the \$630,000 to pay for extensions, improvements and betterments to its electric system. As the money is used to pay for the acquisition of additional

properties, such properties will automatically become subject to the lien of the mortgage of the Santa Barbara Company and no additional bonds may be issued to pay for them.

Applicants report that through the acquisition of the Ventura and Santa Barbara properties, the Southern Counties Gas Company of California will acquire the following franchises:

- (a).-- A constitutional franchise under Section 19, Article II, of the Constitution of the State of California, as the same existed prior to its amendment on October 10, 1911, which franchise will give it the right to operate in the City of Santa Barbara.
- (b).-- A franchise granted by the Board of Supervisors of Santa Barbara County to the Santa Barbara Gas and Electric Company by Ordinance No. 350, adopted October 16, 1911.
- (c).-- A franchise granted by the Board of Supervisors of Santa Barbara County to the Santa Barbara Gas and Electric Company by Ordinance No. 366, adopted December 8, 1914.
- (d).-- A franchise granted by the trustees of the town of San Buena Ventura to E.P. Foster by Ordinance No. 126, adopted November 3, 1903.
- (e).-- A franchise granted by the City of Oxnard, to E.P. Foster under Ordinance No. 34, adopted November 29, 1904.
- (f).-- Constitutional franchises under Section 19, Article II, of the Constitution of the State of California, as the same existed prior to its amendment on October 10, 1911, which franchises will give the purchasing company the right to operate in the City of Ventura, City of Oxnard and the City of Santa Paula.

The Southern Counties asks permission, if it is granted the right to purchase the Ventura and Santa Barbara properties, to operate under each and every one of the franchises enumerated above. The authority herein granted to purchase the properties carries with it the right to operate under the various franchises, subject of course, to the conditions of the order herein.

Pending the final transfer of the properties, the Southern Counties asks permission to operate the Santa Barbara

and Ventura properties pursuant to the terms and conditions of an agreement dated February 28, 1919, which agreement is attached to the petition herein and marked Exhibit "B". Under this agreement, the purchasing company is given the right to assume general charge and supervision of the plants and properties which it intends to acquire. It is not permitted, however, to undertake any new construction without the permission of the selling corporations. All amounts due from consumers for services rendered subsequent to the date of the agreement shall be collected by the purchasing company as the agent of the selling corporations and deposited in a special trust fund. The purchasing company is permitted to draw upon this special trust fund for the purpose of paying the cost of operating the plants and properties and the cost of all extensions, improvements, replacements, repairs or betterments made subsequent to the date of the agreement. In the event that the moneys on deposit in the special trust fund are not sufficient, the purchasing company is required to advance any additional amounts required. If the transfer of the properties is not consummated, any moneys remaining in the special trust fund upon the termination of the agreement revert to the selling corporations.

We herewith submit the following form of Order.

O R D E R.

SOUTHERN CALIFORNIA EDISON COMPANY and SANTA BARBARA GAS AND ELECTRIC COMPANY having applied to the Railroad Commission for permission to sell, and SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA for permission to purchase the gas properties described in Exhibit "A" attached to the petition herein and in Exhibits No. 6 and No. 7 as amended at the hearing on

April 28, 1919, and SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA having applied to the Railroad Commission for permission to issue bonds, a public hearing having been held and the Commission being of the opinion that the money, property or labor to be procured or paid for by such issue as is herein authorized, is reasonably required for the purpose or purposes specified in the order and that the expenditures for such purpose or purposes are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that SOUTHERN CALIFORNIA EDISON COMPANY and SANTA BARBARA GAS AND ELECTRIC COMPANY be, and they are hereby, permitted to sell, and SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA to purchase, pursuant to the terms and conditions of the agreement attached to the petition herein and marked Exhibit "A", the properties described in said Exhibit "A" and in applicants' Exhibits No. 6 and No. 7 as amended at the hearing on April 28, 1919, provided that pending the transfer of said properties Southern Counties Gas Company of California may operate said properties pursuant to the terms and conditions of the agreement attached to the petition herein and marked Exhibit "B".

IT IS HEREBY FURTHER ORDERED that SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA be, and it is hereby, granted authority to issue \$620,000 of its 5-1/2 per cent first mortgage bonds payable May 1, 1936.

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

- 1.-- The bonds herein authorized to be issued shall be sold by Southern Counties Gas Company of California, for cash, at not less than 83 per cent of their face value

plus accrued interest.

- 2.-- The proceeds obtained from the sale of the bonds shall be used by Southern Counties Gas Company of California to pay in part for the properties which it intends to acquire from the Southern California Edison Company and the Santa Barbara Gas and Electric Company.
- 3.-- The price at which the properties of Santa Barbara Gas and Electric Company and Southern California Edison Company are authorized to be sold and transferred shall not be binding upon this Commission or any other public body as a measure of value of said properties for rate-fixing or for any purpose other than the transfer herein authorized.
- 4.-- The authority herein granted shall not become effective until Southern Counties Gas Company of California shall have filed with the Railroad Commission a stipulation, satisfactory to the Commission, agreeing that the difference between the proceeds from the sale of the bonds herein authorized to be issued and the purchase price paid for the properties herein authorized to be transferred will be paid by the stockholders of the Southern Counties Gas Company of California either through the appropriation of surplus earnings or through some other means which will not result in an increase of the permanent capitalization of Southern Counties Gas Company of California beyond the \$620,000 face value of bonds herein authorized to be issued.
- 5.-- Within ninety days after the date hereof, Southern Counties Gas Company of California shall file with the Railroad Commission a stipulation duly authorized by its Board of Directors declaring the Southern Counties Gas Company of California,

its successors or assigns will comply with all the terms and conditions of the franchises which it will acquire pursuant to the authority herein granted and particularly with Ordinance No. 350 adopted October 16, 1911 by the Board of Supervisors of Santa Barbara County; Ordinance No. 356 adopted December 8, 1914 by the Board of Supervisors of Santa Barbara County; Ordinance No. 126 adopted November 7, 1903 by the trustees of the town of San Buena Ventura and Ordinance No. 34 adopted November 29, 1904 by the City of Oxnard; and that it will never claim before the Railroad Commission or any court or other public body a value for the rights and privileges granted by said ordinances in excess of the amount actually paid to the County of Santa Barbara, the town of San Buena Ventura and the City of Oxnard as the consideration for the respective grants of such rights and privileges, which amounts shall be set forth and segregated in the stipulation, and shall have received from the Railroad Commission a supplemental order declaring that such stipulation in satisfactory form has been filed with the Railroad Commission.

5.-- Within sixty days after the transfer of the properties, Southern Counties Gas Company of California shall submit to the Railroad Commission for approval all of the book entries relative to the purchase of the properties of Santa Barbara Gas and Electric Company and the Southern California Edison Company.

6.-- Within sixty days after the execution of instruments of conveyance transferring the properties herein referred to, certified copies of each and every such instrument of conveyance shall be filed with the Railroad Commission by Southern Counties Gas Company of California.

7.-- Southern Counties Gas Company of California shall keep

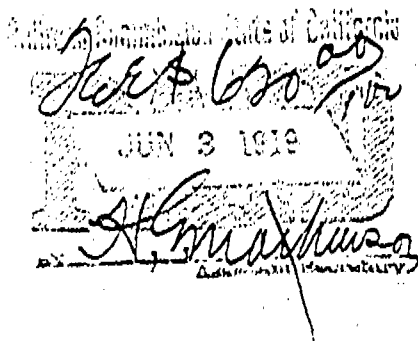
such record of the issue and sale of bonds herein authorized and of the disposition of the proceeds, as will enable it to file on or before the twenty-fifth day of each month a verified report as required by the Railroad Commission's General Order Number 24, which order, in so far as applicable, is made a part of this Order.

8.-- The authority herein granted shall not become effective until Southern Counties Gas Company of California shall have paid the fee prescribed by Section 57 of the Public Utilities Act.

9.-- The authority herein granted shall apply only to the transfer of such properties and to the issue of such bonds as may occur prior to November 30, 1919.

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 29th day of May, 1919.



Edwin O. Edgerton
H. D. ...
Francis R. ...
H. B. ...
Dwight ...
Commissioners.