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Decision No. 633.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of
MIDWAY GAS COMPANY
to accept and exercise certain options
for the purchase of stock of VALLEY
NATURAL GAS COMPANY.

Application No. 4837.

In the Matter of the Application of
MIDWAY GAS COMPANY and VALLEY NATURAL
GAS COMPANY for authority to execute
and deliver a lease covering all and
singular the property of such Valley
Natural Gas Company.

Application No. 4838.

Jared How , for applicants.

EDGERTON, Commissioner.

O P I N I O N.

The above entitled applications were consolidated for hearing and decision. In Application Number 4837, MIDWAY GAS COMPANY asks permission to purchase the outstanding stock, \$400,000, of VALLEY NATURAL GAS COMPANY. In Application Number 4838, VALLEY NATURAL GAS COMPANY asks permission to lease its properties to MIDWAY GAS COMPANY subject to the terms and conditions of the agreement filed at the hearing.

Both Midway Gas Company and Valley Natural Gas Company obtain natural gas from sources of supply in the Midway oil fields. Midway Gas Company transports its natural gas for distribution mainly in Los Angeles and vicinity, while Valley Natural Gas Company distributes its gas in Kern County. Through the discovery of new sources of supply in the Elk Hills oil fields, the supply of natural gas available to

Valley Natural Gas Company is much greater than, with its present facilities, it can distribute, while Midway Gas Company's facilities and available market would enable it to dispose of a larger supply of natural gas than it now distributes. The combining of the operation of the two companies will conserve the natural gas supply, decrease wastage, make possible a lower operating cost and an added natural gas supply for distribution in Los Angeles and vicinity, and possibly warrant the construction of an additional transmission line to Los Angeles, and will increase and extend the business of each company.

Applicants have entered into a proposed lease agreement whereby the Midway Gas Company will be given possession of the Valley Natural Gas Company properties and operate the same. A copy of the lease was filed at the hearing. Under this lease, the Midway Gas Company obligates itself to pay as rental \$24,150 on January 1, 1920, on July 1, 1920, on January 1, 1921, \$4,025 on January 1, 1921 and \$24,150 on the first day of August and the first day of February in each subsequent year during the term of the lease. Midway Gas Company further agrees to maintain the properties of Valley Natural Gas Company in good operating condition, to pay to Anglo-California Trust Company of San Francisco, trustee, on March 15, 1920 \$15,000 for the redemption of certain bonds of Valley Natural Gas Company due on that date and \$2,850 to pay maturing interest, and to pay on September 15, 1920 \$2,400 to meet maturing interest, and to advance to Valley Natural Gas Company such additional amounts as may be necessary to pay taxes to protect the franchises, rights and privileges of Valley Natural Gas Company.

Valley Natural Gas Company reports \$400,000 of common stock (4,000 shares) and \$95,000 of 6 per cent bonds outstanding. All of the stockholders of Valley Natural Gas Company, with the exception of the holders of two shares, have given or agreed to give options for the purchase of their stock to Midway Gas Company. The Midway Gas Company has accepted the options and is willing to pay \$201.25 per share for the stock.

Under the option agreements, Midway Gas Company is required to pay for 1000 shares of Valley Natural Gas Company on or before October 1, 1919, for 999 during January 1920 and for 999 during January 1921. The Midway Gas Company is willing to pay \$201.25 per share for the two shares on which it has at this time no options.

Reports filed with the Commission indicate that the sum of \$567,694 has been invested in the Valley Natural Gas Company properties. The stockholders of the company regard the properties as a valuable asset, and it was only after prolonged negotiation that the parties were able to arrive at a satisfactory sale and purchase price.

The Midway Gas Company intends to pay for the properties from its surplus earnings and by drawing to some extent upon its depreciation fund. It has no intention to issue any bonds or stock to pay either in whole or in part for the properties.

I herewith submit the following form of Order.

O R D E R.

MIDWAY GAS COMPANY having asked permission to purchase the stock of VALLEY NATURAL GAS COMPANY and VALLEY NATURAL GAS COMPANY having asked permission to lease its properties to MIDWAY GAS COMPANY, a public hearing having been held and the Railroad Commission being of the opinion that these applications, subject to the conditions contained herein, should be granted;

IT IS HEREBY ORDERED that MIDWAY GAS COMPANY be, and it is hereby, authorized to purchase at a cost of not exceeding \$201.25 per share 4000 shares of outstanding stock of Valley Natural Gas Company, such purchase to be made pursuant to the agreements filed in Application Number 4837.

IT IS HEREBY FURTHER ORDERED that VALLEY NATURAL GAS COMPANY be, and it is hereby, authorized to lease its properties to

Midway Gas Company pursuant to the terms and conditions of the agreement filed at the hearing in Application Number 4838.

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

- 1.-- Neither the amount which Midway Gas Company is authorized to pay for the stock of Valley Natural Gas Company, nor as rental for the properties, shall be interpreted as fixing the measure of value of Valley Natural Gas Company properties for rate-fixing or any purpose other than the sale of the stock or the lease of the properties herein authorized.
- 2.-- Midway Gas Company shall submit to the Railroad Commission for approval the bookkeeping entries relative to the purchase of the stock of Valley Natural Gas Company.
- 3.-- Within thirty days after the execution of the lease herein authorized, Midway Gas Company shall file with the Railroad Commission a verified copy of said lease.

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 30th day of August, 1919.

Edwin C. Edgerton
H. S. [unclear]
Frank [unclear]
H. B. [unclear]
Dwight [unclear]
Commissioners.