

Decision No. 7231.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

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In the Matter of the Application of)
MIDLAND COUNTIES PUBLIC SERVICE CORPORATION,)
a corporation, and SANTA MARIA GAS AND)
POWER COMPANY, a corporation, for approval)
of a certain contract entered into between) Application Number 5200.
the said corporations as of date December 15,)
1919, and for approval of the plan to change)
certain rates now in force and effect.)

Chickering & Gregory, by Allen Chickering and
Evan Williams, for Santa Maria Gas and
Power Company;

Murray Bourne, for Midland Counties Public Service
Corporation;

C.P. Koetzel, for City of San Luis Obispo.

A.E. Campbell, for gas consumers in Pismo and Avila and
on the line between Pismo and San Luis Obispo.

BRUNDIGE, Commissioner.

O P I N I O N.

The Railroad Commission is asked to make an order approving
the contract attached to the petition herein and marked Exhibit "A", and
permit Santa Maria Gas and Power Company to place in force and effect
in all the territory now served by Midland Counties Public Service Cor-
poration, whose gas properties it intends to acquire, the present sche-
dule of rates of said Santa Maria Gas and Power Company on file with the
Commission or any modification, which the Commission may direct.

From the contract which the Commission is asked to approve,
it appears that Midland Counties Public Service Corporation has agreed to
sell to Santa Maria Gas and Power Company for \$388,000.00 its entire
gas plant, system, equipment, business and good-will thereof, located in

the Counties of Santa Barbara and San Luis Obispo, except its land and gas manufacturing plant thereon situate in the City of San Luis Obispo, its office furniture and fixtures in its office in San Luis Obispo, its retail stores, and all its automobiles except one Ford. The contract describes the properties in greater detail; permits the purchasing company to pay for the properties in cash, bonds and notes and defines certain conditions which must be included in the mortgage and deed of trust securing the payment of the bonds issued and delivered in payment for the properties.

Both the Midland Counties Public Service Corporation and Santa Maria Gas and Power Company are engaged in the business of furnishing gas for sale to the public in the City of San Luis Obispo. The record shows that on account of this competition, the price which the companies have had to pay the producers of natural gas has increased, both competing for their supply from the same source; that there exists a duplication of investment, especially in transmission and distribution mains, and that such duplication will become greater unless the properties are consolidated and operated as a single utility.

Mr. A.E. Wishon, Assistant General Manager of Midland Counties Public Service Corporation, testified that because of limited financial resources, his company could not meet the demand for its new electric extensions and that the amount received from the sale of the gas properties would be used for the betterment of the company's electrical business and the further extensions of its electrical service.

Though not directly before the Commission for adjudication, the matter of abandonment of certain lines, the issue of bonds and the relation of such issue to the investment and net earnings are referred to at some length in the testimony. If this application is granted, Santa Maria Gas and Power Company intends to apply to the Commission for authority to abandon the present eight inch

transmission line of the Midland Company extending from Betteravia Junction northward to Pizmo and Avila, and the Midland Company's four inch line from San Luis Obispo to Oilport. The record shows that there are eighteen consumers served from the four inch line, and eight or ten from the eight inch line; that the company has a firm offer of \$108,000.00 for the eight inch line (125,000²) from Betteravia Junction to Avila, and an offer of 35 cents per foot for the four inch line from Oilport to San Luis Obispo. The Santa Maria Company takes the position that the investment in these lines is too great to warrant retaining them in service for the small number of consumers attached, and that if it is permitted to abandon the lines and sell the pipe, its investment in plant can be materially reduced. It claims that these lines are not necessary in the operation of the consolidated company.

As said, the abandonment of the lines is not now before the Commission, and I call attention thereto only because of the references in the testimony, reserving decision until this matter is before the Commission.

The contract provides that upon the delivery of the documents conveying the properties free and clear of lien and encumbrances, the Santa Maria Company shall pay or cause to be paid, to the Midland Company, \$120,750.00 in cash or an amount in 6 per cent 20-year bonds of a corporation to be hereafter organized, which, accepted at 95 plus accrued interest, will net \$120,750.00. And the Midland Company has agreed to accept in payment for the properties \$195,000.00 face value of 6 per cent 20-year bonds of said corporation and a \$82,000.00 face value 3-year 6 per cent note secured by the deposit of \$86,000.00 of 6 per cent 20-year bonds of said corporation.

Provision is made for the gradual payment of the \$82,000.00 note through the sale of gas to the steam generating plant at Betteravia. The contract also contains certain provisions which must be included in the new mortgage or deed of trust, but inasmuch as neither the issue of the bonds nor the execution of the deed of trust is now

before the Commission, it is unnecessary to refer to such provisions. The selling corporation agrees not to sell or dispose of the bonds it receives in payment for the properties for eighteen months after the date of receipt of such bonds and that during this time it will sell to the new corporation upon five days written notice, the bonds at 95 plus accrued interest.

The Santa Maria Company in Exhibit No. 3, prepared by F. Emerson Hoar, consulting engineer, reports the reproduction cost new of the property which it desires to acquire from the Midland Company at \$781,424.00 and the reproduction cost depreciated as of January 1, 1920, at \$385,632.00. The reproduction cost of the 8" line from Betteravia Junction to Avila is reported at \$415,983.00 and the reproduction cost depreciated at \$100,000.00, the latter figure representing, according to Mr. Hoar, the salvage value. The reproduction cost depreciated does not include any right of way which it is intended to abandon. In Exhibit No. 4, also prepared by Mr. Hoar, he deducts from the \$385,632.00 the sum of \$31,006.00 which he believe represents property useful and necessary to improve the present service of the Santa Maria Company; and the further sum of \$132,690.00 which he believes can be obtained for property to be abandoned, leaving \$221,936.00 as a basis on which a return should be calculated. He then assumes that the rates of the Santa Maria Company now in effect will be applied to consumers at present being served by the Midland Company, that one million cubic feet of gas will be sold daily to San Joaquin Light and Power Corporation, and, after making such assumptions, concludes that, after paying operating expenses and taxes, \$24,888.00 will be available to Santa Maria Gas and Power Company to pay interest on the added investment and provide for depreciation.

It would thus appear that the earning capacity of the properties to be transferred is contingent upon the abandonment and sale of at least the 8" transmission main, and to a lesser degree upon the

abandonment and sale of the 4" lines above referred to.

In Exhibit No. 5, Mr. Hoar estimates the gross earnings of the consolidated properties for 1920 at \$209,992.00 and the operating expenses including taxes and depreciation at \$165,685.00, leaving \$44,307.00 available for interest. The annual interest payments are reported in Exhibit No. 5 at \$25,560.00, leaving a surplus of \$18,747.00.

The interest payments consist of:

Interest on \$129,000.00 of underlying bonds at 6%,.....	\$7,740.00
Interest on 195,000.00 of new bonds at 6 per cent,.....	11,700.00
Interest on 82,000.00 of 6 per cent notes,.....	4,920.00
Other interest estimated,.....	<u>1,200.00</u>
Total,.....	\$25,560.00

The Santa Maria Company now charges a rate of \$1.00 per thousand cubic feet for general domestic and commercial service, and lower rates for larger consumption and for surplus fuel gas. The Midland Company is now charging a general service rate of 50¢ per thousand cubic feet, reducing for quantity, and a rate of 20¢ per thousand cubic feet for boiler fuel service. These rates apply in the City of San Luis Obispo and adjacent territory.

The past operations of the Midland Company show clearly that its service is being supplied at a loss. It is not probable that the Midland Company could continue indefinitely in the future to supply good service at its present low rates. On the other hand, the rates now charged by the Santa Maria Gas and Power Company cannot be considered as excessive rates for the service rendered. In spite of the higher rate which it charges, the Santa Maria Company has succeeded in obtaining and holding for itself the major portion of the business in competition. If the properties are to be consolidated and operated as a unit, an obvious discrimination in rates will occur unless the present differences in the rates of the two companies are equalized.

The Santa Maria Company stipulated in effect that if this application is granted, it will receive and operate the properties now owned by the Midland Company subject to the same terms, limitations, payment and duration of its present franchise and that the City of San Luis

Obispo should not by any language or provision of the franchise be required to purchase any property conveyed by the Midland Company to the Santa Maria Company, which is not at the time of purchase actually used and useful, as a part of the system of the Santa Maria Company for supplying consumers with gas in the city of San Luis Obispo. Upon the filing of this stipulation, the City of San Luis Obispo withdrew all objection to the transfer of the properties.

Though notice was given that the transfer of the properties may result in an increase in rates to present consumers of the Midland Company, no protest against such increase has been filed with the Commission.

I herewith submit the following form of Order.

O R D E R.

MIDLAND COUNTIES PUBLIC SERVICE CORPORATION, having asked permission to transfer certain gas properties to Santa Maria Gas and Power Company, and the latter company having joined in the application and having asked permission to increase certain rates, a public hearing having been held, and the Commission being of the opinion that this application should be granted subject to the conditions of this Order;

IT IS HEREBY ORDERED that, MIDLAND COUNTIES PUBLIC SERVICE CORPORATION be, and it is hereby, authorized to sell and transfer to SANTA MARIA GAS AND POWER COMPANY, and said SANTA MARIA GAS AND POWER COMPANY be, and it is hereby, authorized to purchase for the sum of \$388,000.00 the properties described in Exhibit "A", attached to the petition.

The authority hereinabove granted is subject to the following conditions:

- 1.-- The consideration at which the transfer of the properties is herein authorized, shall not be urged before this Commission or any other public body having

jurisdiction, as fixing the value of the properties for rate-making or any purpose other than the transfer herein authorized.

2.--The authority herein granted shall not be interpreted as giving Santa Maria Gas and Power Company permission to abandon any service or to issue any securities.

3.--Within sixty days after the transfer of the properties herein authorized, Santa Maria Gas and Power Company shall file with the Railroad Commission for approval, a copy of all book entries relative to the transfer and purchase of the properties.

4.--Within thirty days after the transfer of the properties herein authorized, Santa Maria Gas and Power Company shall file with the Railroad Commission a verified copy of the instrument of conveyance whereby it receives title to the properties.

5.--Within sixty days after the receipt of payment, Midland Counties Public Service Corporation shall file with the Railroad Commission for approval a statement showing the purposes for which it intends to expend the moneys obtained from the sale of the properties herein authorized.

IT IS HEREBY FURTHER ORDERED that SANTA MARIA GAS AND POWER COMPANY be, and it is hereby, authorized to charge for gas sold in accordance with its regularly filed schedule of rates, all such consumers as it shall acquire from Midland Counties Public Service Corporation, from and after the first regular meter reading date after the

transfer of the properties herein authorized,

PROVIDED Santa Maria Gas and Power Company shall within ten days after the transfer of the properties herein authorized file with the Railroad Commission such modifications in its schedule of rates as shall be necessary to conform with this authority.

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 8th day of March, 1920.

Edwin A. Ege
H. H. Overland
Frank R. Johnson
H. H. Boudreau
Dwight Martin
Commissioners.