

Decision No. 30304

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the joint application of)
COAST COUNTIES GAS AND ELECTRIC COMPANY,)
a corporation, and NATURAL GAS CORPORATION)
OF CALIFORNIA, a corporation, for an order)
authorizing applicants to merge and for)
the surviving corporation thereupon to)
issue certain shares of stock.)

ORIGINAL
Application No. 21507

Pillsbury, Madison & Sutro, by Hugh Fullerton,
for applicants.

BY THE COMMISSION:

OPINION

In this proceeding applicants, Coast Counties Gas and Electric Company and Natural Gas Corporation of California, ask the Commission to enter its order under Section 51-A of the Public Utilities Act, authorizing them to merge into Coast Counties Gas and Electric Company as the surviving corporation, and authorizing said surviving corporation under Section 52-B of the Public Utilities Act, to issue the shares of stock to which reference will be made hereafter.

Coast Counties Gas and Electric Company, hereinafter sometimes referred to as the Coast Counties, is a California corporation engaged in the business of distributing natural gas and electricity as a public utility. It sells natural gas in Santa Cruz, Watsonville, Hollister, Gilroy, Los Banos, Gustine, Dos Palos, Pittsburg, Antioch, Martinez and Crockett; and electricity in Santa Cruz, Watsonville, Hollister, Gilroy and in certain rural areas of San Benito, Santa Clara, Santa Cruz and Monterey Counties. For the twelve months ending September 30, 1937 it reports electric operating revenues of \$1,537,047.37 and gas operating revenues of \$1,239,042.27.

The Natural Gas Corporation of California, hereinafter sometimes referred to as the Natural Gas Company, is a California

corporation. It sells butane gas in the following cities and towns:- Arcata, Brawley, Calexico, Dunsmuir, El Centro, Isleton, Rio Vista, Suisun, Fairfield, Vacaville and Yreka. It sells natural gas in Taft, South Taft, Ford City, Maricopa, Fellows, Kettleman City and Avenal. It also sells water in Avenal. For the twelve months ending September 30, 1937 it reports the following operating revenues:-

From sale of natural gas	\$191,104.70
From sale of butane gas	208,680.39
From sale of water	32,781.02
Total	<u>542,566.11</u>

In Application No. 21549 now pending before the Commission the Natural Gas Corporation of California asks permission to sell to the Pacific Gas and Electric Company its butane gas plants and distribution systems in Rio Vista, Fairfield, Suisun, Vacaville and Isleton.

Coast Counties Gas and Electric Company has outstanding \$3,746,300. of 6% first preferred cumulative stock, \$1,000,000. of 6% second preferred cumulative stock and \$1,000,000. of common stock. All of the common stock, all of the second preferred stock and \$193,200. of the first preferred stock are owned by the Pacific Public Service Company, a California corporation. The Natural Gas Corporation of California has outstanding \$275,000.00 of common stock, all of which is owned by the Pacific Public Service Company.

The Coast Counties Gas and Electric Company has issued and outstanding \$2,980,000.00 of its first mortgage 4% "Series B" bonds due in 1965. The Natural Gas Corporation of California has no bonds outstanding. It is indebted, however, to the Pacific Public Service Company in the amount of \$1,567,405.60, which sum has been advanced to the Natural Gas Company from time to time for the purpose of enabling that company to acquire, construct and operate its properties. The assets and liabilities of the two companies as of August 31, 1937 are in Exhibit No. 1 reported as follows:-

A S S E T S

	<u>Natural Gas Corporation of California</u>	<u>Coast Counties Gas and Electric Company</u>
<u>FIXED ASSETS:</u>		
Fixed capital in service	\$2,151,664.61	\$10,219,605.22
Fixed capital under construction	29,567.39	263,296.73
Total fixed assets	2,181,232.00	10,483,491.95
<u>CURRENT AND ACCRUED ASSETS:</u>		
Cash	37,358.94	462,824.33
Special deposits	675.53	66,310.31
Notes receivable	2,067.49	2,245.00
Accounts receivable	65,226.33	265,856.19
Interest receivable	-	50.69
Material and supplies	44,906.86	179,189.39
Total current and accrued assets	150,235.15	976,475.91
<u>DUE FROM AFFILIATED COMPANIES:</u>		
Coast Industrial Gas Company	-	93.76
Natural Gas Corporation of California	-	2,367.96
Total due from affiliated companies	-	2,461.72
<u>PREPAID AND DEFERRED DEBITS:</u>		
Unamortized debt discount & expense	-	361,613.10
Clearing or apportionment accounts	124.44	623.04
Prepaid taxes	51.02	486.95
Prepaid insurance	1,009.76	7,885.37
Prepaid expense	57.58	838.85
Miscellaneous deferred items	1,235.21	13,921.15
Property abandoned	-	217,978.50
Total prepaid and deferred debits	2,478.01	603,546.96
<u>MISCELLANEOUS DEBIT ITEMS:</u>		
Discount on capital stock-1st preferred	-	317,233.00
Total assets	\$2,333,945.16	\$12,333,009.54
<u>L I A B I L I T I E S</u>		
<u>CAPITAL STOCK:</u>		
First preferred	-	\$ 3,746,300.00
Second preferred	-	1,000,000.00
Common	275,000.00	1,000,000.00
Total capital stock	275,000.00	5,746,300.00
<u>LONG TERM DEBT:</u>		
First mortgage 4% Ser."B" bonds-1965		2,980,000.00
<u>CURRENT AND ACCRUED LIABILITIES:</u>		
Accounts payable	7,044.24	38,967.01
Accrued payroll	3,349.85	17,899.71
Consumers deposits	8,437.50	28,518.35
Dividends declared	-	71,194.50
Miscellaneous current liabilities	-	825.00
Taxes accrued-Local and State	7,110.60	34,490.58
Taxes accrued-Federal	27,214.91	166,268.85
Interest accrued-Long term debt	-	59,600.00
Miscellaneous accrued liabilities	1,087.88	5,276.44
Total current and accrued liabilities	\$ 54,244.98	\$ 423,040.94
<u>DUE TO AFFILIATED COMPANIES:</u>		
Pacific Public Service Company	1,567,405.60	611.58
Coast Natural Gas Company	1,215.84	43,368.11
Coast Counties Gas and Electric Co.	2,367.96	-
Total due affiliated companies	\$1,570,989.40	43,979.69
<u>DEFERRED CREDITS:</u>		
Consumers advances for construction	13,673.00	56,416.03
Miscellaneous	3,311.50	-
Total deferred credits	\$ 16,984.50	\$ 56,416.03

LIABILITIES-Contd	Natural Gas Corporation of California	Coast Counties Gas and Electric Company
<u>RESERVES:</u>		
Depreciation	\$ 391,957.80	\$ 2,540,349.14
Casualty and Insurance	778.08	50,686.19
Uncollectible accounts	17,287.12	28,547.93
Total reserves	<u>410,023.00</u>	<u>2,619,583.26</u>
<u>SURPLUS-</u> Earned	<u>6,703.28</u>	<u>513,689.62</u>
Total Liabilities.....	<u>\$ 2,333,945.16</u>	<u>\$ 12,383,009.54</u>

A copy of the proposed merger agreement is attached to the amended petition filed on October 21, 1937 as Exhibit A. Concurrently with or prior to the merger of the two corporations Natural Gas Company, so the record shows, will credit its fixed capital accounts (a) with development costs in towns in which the company did not complete its proposed butane plants, and (b) with charges made by the Standard Management and Operating Corporation for engineering fees at the time of the construction of the butane plants. It, of course, will also, if Application No. 21549 is granted, make appropriate entries because of the sale of properties to the Pacific Gas and Electric Company. Its book loss on the sale of such properties and the two aforementioned items aggregate about ~~\$119,700.~~ ^{\$106,490.26} This write off will be applied to the reduction of the \$1,567,405.60 owed by Natural Gas Company to Pacific Public Service Company. Under the merger agreement \$1,450,000. of such debt will be converted into common stock of the surviving corporation, to-wit: the Coast Counties Gas and Electric Company.

After said entries are made there remains on the books of Natural Gas Company an item of \$105,258.45 which is called development costs. In our opinion such sum represents operating losses and should not be capitalized through the issue of stock. A deduction of \$105,000. should be made from the proposed stock issue of \$1,450,000.

Under the merger agreement the \$1,000,000. of second preferred stock of Coast Counties Gas and Electric Company will be converted into \$1,000,000. of common stock. Upon the merger becoming effective

the surviving corporation will have outstanding \$3,620,000.00 of common stock, \$5,746,300. of 6% first preferred stock and \$2,980,000. of 4% bonds.

The merger will materially improve the position of the holders of the company's bonds and preferred stock, in that additional assets and earnings are placed behind such securities. To a minor extent there will be savings in operating expenses. In addition, the preparation of duplicate reports will be eliminated.

The properties of Coast Counties Gas and Electric Company and Natural Gas Corporation of California are under the same management. The properties of the two companies do not overlap physically, and consequently the question of duplicate property does not enter into this proceeding. The companies now segregate their investment, operating revenues and operating expenses by operating divisions. Such segregations should be continued after the merger. The order will require the surviving corporation to keep its books and records in such a manner as will enable it to file divisional reports in the form required by the Commission.

ORDER

A public hearing having been held on the above entitled matter before Examiner Fankhauser, and the Commission having considered the evidence submitted at such hearing and it being of the opinion that applicants should be permitted to execute a merger agreement similar in form to that filed in this proceeding on October 21, 1937 as Exhibit A, modified as to the issue of common stock in the amount indicated in the foregoing opinion, that the money, property or labor to be procured or paid for by such stock issue is reasonably required for the purpose herein stated and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application should be granted

as herein provided, therefore,

IT IS HEREBY ORDERED that Coast Counties Gas and Electric Company and Natural Gas Corporation of California may on or before February 1, 1938 execute a merger agreement similar in form to the merger agreement filed in this proceeding on October 21, 1937 as Exhibit A, modified so that the issued and outstanding common stock of the surviving corporation will not exceed \$3,620,000.

IT IS HEREBY FURTHER ORDERED that Coast Counties Gas and Electric company may on or before February 1, 1938 issue its stock necessary to carry said merger agreement into effect.

IT IS HEREBY FURTHER ORDERED that until otherwise directed, Coast Counties Gas and Electric Company shall file with the Commission operating divisional reports in such form as the Commission may prescribe.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is subject to the condition that the Commission has made no finding as to the value of applicants' properties for the purpose of fixing rates.

IT IS HEREBY FURTHER ORDERED that within thirty(30) days after the execution of the aforesaid merger agreement Coast Counties Gas and Electric Company shall file two certified copies of the same with the Commission, together with a report showing the amount of stock issued under the authority herein granted.

DATED at San Francisco, California, this 8th day of November, 1937.

Robert S. Moore
Leon C. Caldwell
Arthur P. Quinn
Rafael A. Pineda
Paul J. Riley

Commissioners