

ORIGINAL

Decision No. 33544

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHERN CALIFORNIA GAS COMPANY, a corporation, SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA, a corporation, and SANTA MARIA GAS COMPANY, a corporation, for an order authorizing said corporations to merge into SOUTHERN CALIFORNIA GAS COMPANY pursuant to the provisions of Section 361 of the Civil Code of the State of California; authorizing SOUTHERN CALIFORNIA GAS COMPANY to issue and exchange stock, to assume certain obligations, and to execute and deliver a supplemental indenture; and authorizing the transfer of certain certificates of public convenience and necessity.

Application No. 23767

Leroy M. Edwards and Thomas J. Reynolds,
for Applicant

Ray L. Chesebro, City Attorney and Frederick Von Schrader,
Assistant City Attorney, for City of Los Angeles

K. Charles Bean and Stanley Lanham for the Board of
Public Utilities and Transportation of the City
of Los Angeles

Harold P. Kuls, City Attorney and E. Burton Noble,
Assistant City Attorney for the City of Pasadena

T. A. Hunter for Warner Bros. Studio, Paramount Studio,
Goldwyn Studio, Columbia Studio and Universal Studio;
Weber Baking Co., Four S Baking Co. and Dolly Madison
Cake Co.

WAKEFIELD, COMMISSIONER:

O P I N I O N

Southern California Gas Company, Southern Counties Gas Company of California and Santa Maria Gas Company ask permission to

execute a merger agreement similar in form to that filed in this proceeding as Exhibit H for the purpose of merging said three companies into Southern California Gas Company as the surviving corporation. Southern California Gas Company as the surviving corporation asks permission to issue 440,000 shares of its common stock in exchange for common stock of Southern Counties Gas Company of California and of Santa Maria Gas Company. It also asks permission to execute a supplemental indenture (Exhibit C amended) assuming the payment of \$11,500,000 of Southern Counties Gas Company of California $4\frac{1}{2}\%$ first mortgage bonds, due May 1, 1968. The Commission is further asked to authorize Southern Counties Gas Company of California and Santa Maria Gas Company, upon the consummation of the merger, to transfer to Southern California Gas Company, the surviving corporation, the certificates of public convenience and necessity heretofore granted by the Commission to said Southern Counties Gas Company of California and Santa Maria Gas Company in the decisions set forth in Exhibit I filed in this proceeding.

The Southern California Gas Company, Southern Counties Gas Company of California and Santa Maria Gas Company are, through stock ownership, controlled by the Pacific Lighting Corporation. The Southern California Gas Company is engaged in the distribution and sale of gas in the Counties of Los Angeles, Riverside, San Bernardino, Kern, Tulare, Kings and Fresno. Southern Counties Gas Company of California is engaged in the distribution and sale of gas in the Counties of Los Angeles, Orange, Ventura, and in the sale of gas in the County of San Diego. The Santa Maria Gas Company is engaged in the distribution and sale of gas in the Counties

of San Luis Obispo and Santa Barbara.

Testimony shows that the system of the Santa Maria Gas Company is physically interconnected with that of the Southern Counties Gas Company of California and that the system of the latter is physically interconnected with the system of the Southern California Gas Company. Maps showing the territory served by each of the applicant corporations respectively are filed in this proceeding as Exhibits D, E and F.

The Southern California Gas Company has an authorized stock issue of \$100,000,000 divided into 4,000,000 shares with a par value of \$25 per share. The authorized stock of the company consists of \$4,000,000 par value of 6% cumulative preferred stock; \$56,000,000 par value of 6% cumulative preferred stock, Series A; and \$40,000,000 par value of common. The company has outstanding preferred and common stocks as follows:

Preferred, 6% cumulative	\$ 3,998,900
Preferred, 6% cumulative, Series A.	19,575,800
Common	28,800,000
Total	<u>\$52,374,700</u>

The Southern Counties Gas Company of California has an authorized stock issue of \$25,000,000, divided into 250,000 shares of the par value of \$100 each. Its authorized stock consists of \$5,000,000 preferred 7% cumulative; \$7,500,000 preferred 6% cumulative; and \$12,500,000 of common. None of the preferred stock is now outstanding. Of the common stock there is presently outstanding \$8,000,000 par value. By Decision No. 33613, dated October 22, 1940, the Commission authorized Southern Counties Gas Company of California to issue an additional \$1,500,000 of its common stock for the purpose of reimbursing its treasury because of income expended for additions and betterments.

The Santa Maria Gas Company has a common stock authorization of \$1,500,000 par value, consisting of 15,000 shares. All of the company's common stock is outstanding. All of the common stock of Santa Maria Gas Company; all of the common stock of Southern Counties Gas Company of California; all but forty-four shares of the common stock of Southern California Gas Company and some of its preferred stock, are owned by the Pacific Lighting Corporation. The proposed merger agreement provides that each share of the common stock of Southern Counties Gas Company of California having a par value of \$100 shall become and be converted into four fully paid shares of the common stock of Southern California Gas Company having a par value of \$25 each, and that each share of the capital stock of the Santa Maria Gas Company having a par value of \$100 shall become and be converted into four fully paid shares of the common stock of Southern California Gas Company having a par value of \$25 each. To effect this conversion, Southern California Gas Company asks permission to issue 440,000 shares of its common capital stock of the par value of \$25 per share.

It is alleged in the application that it is^{considered}/desirable and advisable by each of the applicants, in the interest of efficiency and economy in operation and of the general welfare and advantage of each of the applicants and their consumers and of their respective shareholders, that said merger be consummated pursuant to the terms of said Agreement of Merger and the provisions of Section 361 of the Civil Code of the State of California. The system resulting from such merger will be physically interconnected and may be economically and efficiently operated as a single interconnected and coordinated system, and the resulting unification of facilities and standardization of practices will result in better service and greater convenience to all consumers of the applicants.

Applicants rested their case after submitting evidence showing that the merger of the three companies will make possible the refunding of Southern Counties Gas Company of California \$11,500,000 of 4½% bonds, due May 1, 1968 at a lower rate of interest than would prevail if they were refunded without a merger, the amount of which anticipated saving was not disclosed; that the Santa Maria Gas Company system was interconnected with Southern Counties Gas Company of California; that the latter's system with that of Southern California Gas Company, and that all three companies have a common source of natural gas supply, and the presentation of a pro forma balance sheet of the surviving corporation, assuming that the merger had been in effect on September 30, 1940.

Not until they were requested to do so did applicants submit any evidence that the system resulting from the merger may be more economically and efficiently operated than the three systems now existing, and that the resulting unification of facilities and standardization of practices will result in better service and greater convenience to all consumers of applicants. The testimony submitted on these points is general to the extreme. No one could inform the Commission of the executive and management personnel of the merged company, or to what extent there would be a consolidation of operating districts or divisions, or what accounting records would be kept by districts or divisions, or how differences in rates, rules and regulations would be harmonized. In answer to inquiries relating to those matters, witnesses for applicants stated merely that consideration was being given to them but at this time no conclusions had been reached. Representatives of the City of Los Angeles and of the City of Pasadena sought information relative to the earnings of the three companies. On this point applicants offered no evidence. To expedite

the submission of the matter, the Commission had a member of its staff present the investment and net operating revenues of each of the companies as determined in studies by the Commission staff.

Except for the saving in bond interest, there is no evidence that a decrease in expenses will be an immediate result of the merger. No other economies are presently expected.

After considering the record, it occurs to me that this application has been presented without mature consideration having been given to the results of the proposed merger. The Commission set it for hearing at an early date upon the informal representation that applicants, if they are to proceed with the merger, should have a decision on or before October 29th. When the hearing was set for October 25th, it was assumed that applicants were prepared to inform this Commission what changes in operating standards, records or rates might be expected to result from the proposed merger. This, they have failed to do. Without such evidence it is impossible to determine whether the proposed merger is in the public interest and I, therefore, recommend that this application be denied without prejudice.

My conclusion makes it unnecessary to discuss the position taken by representatives of the City of Los Angeles and of the City of Pasadena.

I herewith submit the following form of order.

O R D E R

A public hearing having been held in the above entitled application by me, and Examiners Fankhauser and McNaughton, and the Commission having considered the evidence submitted at such hearing, and it being of the opinion that said application should be denied without prejudice, therefore

IT IS HEREBY ORDERED that the above entitled application be, and the same is, hereby denied without prejudice.

The foregoing opinion and order are hereby declared to be the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 29th
day of October, 1940.

Ray L. Riley
James D. Miller
Ralph W. Johnson
H. H. Hill
Justin F. Craven
Commissioners.