

ORIGINAL

Decision No. 34650

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of 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 Counties Gas Company of California, pursuant to the provisions of Section 361 of the Civil Code of the State of California; authorizing Southern Counties Gas Company of California to issue and exchange stock, to assume certain obligations; and authorizing the transfer of certain certificates of public convenience and necessity.

Application No. 24387

LeRoy M. Edwards, for Applicants,  
Gilmore Tillman, Assistant City  
Attorney and K. Charles Bean, Chief  
Engineer, Board of Public Utilities  
and Transportation, for the City of  
Los Angeles.  
A. Gordon Oliver, for the City of  
Lompoc.

BAKER, COMMISSIONER:

O P I N I O N

Southern Counties Gas Company of California, hereinafter sometimes referred to as the Surviving Corporation, and Santa Maria Gas Company, hereinafter sometimes referred to as the Santa Maria Company, ask permission to execute an agreement of merger substantially in the same form as the agreement of merger filed in this proceeding as Exhibit E. Under the terms of such agreement Southern Counties Gas Company of California will be the Surviving Corporation and will succeed without other transfer to all the rights and property of the constituent corporations and be liable for all the debts and liabilities of

each of the constituent corporations in the same manner as if the Surviving Corporation had itself incurred such debts and liabilities.

The Commission is also asked to authorize Santa Maria Gas Company to transfer to the Surviving Corporation the certificates of public convenience and necessity listed in Exhibit F filed in this proceeding at the hearing on September 19, and to authorize the Surviving Corporation to issue \$1,500,000 of common stock in exchange for the \$1,500,000 of common stock of the Santa Maria Gas Company.

Southern Counties Gas Company of California has outstanding \$9,500,000 par value of common stock, all of which is owned by the Pacific Lighting Corporation. Santa Maria Gas Company has outstanding \$1,500,000 of common stock, all of which is likewise owned by the Pacific Lighting Corporation.

Southern Counties Gas Company of California has outstanding \$11,500,000 of First Mortgage 3% bonds, due in 1971. Santa Maria Gas Company has no bonds outstanding.

As of August 31, 1941, the assets and liabilities of Santa Maria Gas Company are, in Exhibit 1, reported as follows:

ASSETS AND OTHER DEBITS

|                                    |                     |                       |
|------------------------------------|---------------------|-----------------------|
| <u>Investments:</u>                |                     | \$2,748,904.01        |
| Intangible fixed capital           |                     |                       |
| in service                         | \$ 10,881.89        |                       |
| Tangible fixed capital             |                     |                       |
| in service                         | 2,629,833.07        |                       |
| Fixed capital under                |                     |                       |
| construction                       | 74,198.08           |                       |
| Miscellaneous investments          | 33,990.97           |                       |
| <u>Current and Accrued Assets:</u> |                     | 207,772.24            |
| Cash                               | 29,006.88           |                       |
| Accounts receivable                | 76,477.92           |                       |
| Materials and supplies             | 102,287.44          |                       |
| <u>Deferred Debits:</u>            |                     | 13,145.46             |
| Clearing and apportionment         |                     |                       |
| accounts                           | 596.45              |                       |
| Prepayments                        | 4,415.19            |                       |
| Misc. deferred debits              | 8,133.82            |                       |
|                                    | <u>Total Assets</u> | <u>\$2,969,821.71</u> |

LIABILITIES AND OTHER CREDITS

|   |              |                              |
|---|--------------|------------------------------|
| <u>Capital Stock Outstanding</u>        |              | \$1,500,000.00               |
| <u>Current and Accrued Liabilities:</u> |              | 167,069.84                   |
| Accounts payable                        | \$ 45,198.30 |                              |
| Consumers' deposits                     | 13,633.26    |                              |
| Taxes accrued                           | 107,696.22   |                              |
| Miscellaneous accrued liabilities       | 542.06       |                              |
| <u>Deferred Credits:</u>                |              | 5,408.36                     |
| Consumers' advances for construction    | 3,986.45     |                              |
| Miscellaneous deferred credits          | 1,421.91     |                              |
| <u>Reserves:</u>                        |              | 880,425.86                   |
| Reserve for retirements                 | 768,470.73   |                              |
| Casualty and insurance reserve          | 88,984.10    |                              |
| Miscellaneous reserves                  | 22,971.03    |                              |
| <u>Unappropriated Surplus</u>           |              | <u>416,917.65</u>            |
| <b>Total Liabilities</b>                |              | <b><u>\$2,969,821.71</u></b> |

For the year 1940, Southern Counties Gas Company of California reported operating revenues of \$9,533,155.47, while Santa Maria Gas Company, for the same year, reported operating revenues of \$668,378.18. The latter figure is distributed by Santa Maria Gas Company to its operating divisions as follows:

|                       |                            |
|-----------------------|----------------------------|
| Santa Maria .....     | \$279,157.35               |
| Lompoc .....          | 101,830.19                 |
| San Luis Obispo ..... | 173,752.92                 |
| Pismo Beach .....     | 47,894.25                  |
| Paso Robles .....     | <u>65,743.47</u>           |
| <b>Total</b>          | <b><u>\$668,378.18</u></b> |

Until about 1929 Santa Maria Gas Company obtained all of its natural gas from producers in the Santa Maria field. Because of increasing demand for gas and the decline in local gas production it became necessary in 1929 to augment the local supply of natural gas from outside sources. To this end Southern Counties Gas Company of California constructed an 8-inch natural gas transmission line from Santa Barbara to Gaviota, where the line connects with the Santa Maria Company

system. From 1929 to 1940, the former supplied from 15% to 35% of the latter's gas requirements. Recently new gas production was obtained in an extension of the Santa Maria field and the local supply again became sufficient to meet Santa Maria Company's normal requirements. With the construction of two large army cantonments in the Santa Maria territory, one at San Luis Obispo and the other at Lompoc, the local supply of natural gas will, during times of peak demand, be probably inadequate and Southern Counties Gas Company of California will again be called upon to supply Santa Maria Gas Company with some of the gas which that company is distributing.

It is further of record that from time to time Southern Counties Gas Company of California has loaned the services of members of its staff to the Santa Maria Company. The management of Southern Counties Gas Company of California is familiar with the properties and the operations of the Santa Maria Company.

The testimony shows that if the merger is consummated the area now served by the Santa Maria Company will become an operating district of the Surviving Corporation. Allen T. Fesler, General Superintendent of the Santa Maria Company, will be the District Manager. Though Robert E. Easton, President of the Santa Maria Company, will retire, he will be a director of the Surviving Corporation.

The merger of the two companies will, I believe, be in the public interest. The Surviving Corporation will immediately undertake the reconstruction of the distribution system at San Luis Obispo. This distribution system will be converted from low to high pressure. Gas leakage in such system will be mitigated and safety promoted. Engineers and sales specialists,

now employees of Southern Counties Gas Company of California, will have direct supervision over activities requiring the attention of specialists. The fact that the Santa Maria Company has no bonds outstanding increases the amount of bonds which the Surviving Corporation can have authenticated under its trust indenture. This situation should enable the Surviving Corporation to readily finance additions, betterments, and improvements to its properties.

From the geographical location of the Santa Maria Gas Company and the Southern Counties Gas Company of California it is evident that in general their service areas are widely separated and, accordingly, the community of interests between the customers in these respective areas may be very limited. It is my view, therefore, that in determining earnings, rates for service and kindred matters, the Santa Maria District may have to be considered separately to bring about equitable results.

As stated, under the merger agreement the Surviving Corporation will assume all of the debts and liabilities of the two constituent corporations in the same manner as if the Surviving Corporation had itself incurred such debts and liabilities.

Applicants request that the Commission permit Santa Maria Gas Company to transfer to the Surviving Corporation its certificates of public convenience and necessity to exercise rights and privileges granted to it by the following franchises:

| <u>Ord. No.</u> | <u>Date of Grant</u> | <u>Term of Yrs.</u> | <u>Grantor</u>          | <u>C. R. C. Date</u>   | <u>Decision No.</u> |
|-----------------|----------------------|---------------------|-------------------------|--|---------------------|
| 432             | 10-1-28              | 50                  | County of Santa Barbara | 10-9-28<br>8-26-35   | 20308 &<br>28193    |
| 39              | 1-6-36               | 50                  | " " San Luis Obispo     | 3-14-38  | 30695               |
| 252             | 9-4-28               | 25                  | City of Lompoc          | 10-9-28<br>8-26-35   | 20308 &<br>28193    |
| 59              | 12-15-37             | Inde-<br>term.      | City of Arroyo Grande   | 3-14-38  | 30696               |
| 38              | 3-11-29              | 50                  | City of Paso Robles     | 4-24-39  | 21006               |
| -               | 10-1-06              | 50                  | City of Santa Maria     | Exercised and in use in 1907 before adoption of State Pub.Util. Act. |                     |

The merger agreement provides that each share of the capital stock of the Santa Maria Company, having a par value of \$100, shall become and be converted into one fully paid share of common stock of the Surviving Corporation, having a par value of \$100 each. As indicated, the effect of the merger agreement is the substitution of \$1,500,000 of common stock of the Surviving Corporation for the \$1,500,000 of common stock of the Santa Maria Gas Company now outstanding.

No one appeared at the hearing to protest the granting of this application.

I recommend the following form of order:

**O R D E R**

A public hearing having been held on the above-entitled matter on September 19; the Commission having considered the evidence submitted at such hearing and it being of the opinion that the money, property or labor to be procured or paid for by the Surviving Corporation through the issue of \$1,500,000 of common stock is reasonably required for the purpose herein

stated; that the expenditures for said purpose are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:

1. Southern Counties Gas Company of California and Santa Maria Gas Company may, after the effective date hereof and on or before December 31, 1941, execute an agreement of merger in substantially the same form as the agreement of merger filed in this proceeding as Exhibit E, and merge into the Southern Counties Gas Company of California, the Surviving Corporation, their respective plants, systems, franchises, permits and other properties.

2. Southern Counties Gas Company of California, the Surviving Corporation, may issue, after the effective date hereof and on or before December 31, 1941, \$1,500,000 par value of its common capital stock for the purpose and on the basis stated in said agreement of merger.

3. Santa Maria Gas Company, may, after the effective date hereof and prior to December 31, 1941, transfer to Southern Counties Gas Company of California, the Surviving Corporation, the certificates of public convenience and necessity heretofore granted by the Railroad Commission of the State of California to said Santa Maria Gas Company and referred to in the foregoing Opinion.

4. Within thirty (30) days from and after the execution of said agreement of merger, Southern Counties Gas Company of California, the Surviving Corporation, shall file with the Railroad Commission two certified copies of said

agreement of merger together with a statement showing the amount of stock issued under the authority herein granted, to whom said stock was issued and the purpose for which said stock was issued.

5. The authority will become effective fifteen (15) days after the date hereof.

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 7<sup>th</sup>  
day of October, 1941.

[Signature]  
[Signature]  
Justin F. Cooney  
Francis R. Havenner  
[Signature]  
Commissioners