

Decision No. 41350

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

IN THE MATTER OF THE

(1) Application of KENNETH E. KNAPP,  
dba GARBERVILLE GAS COMPANY, for  
an order authorizing the sale of  
property, including Certificate of  
Public Convenience and Necessity;

(2) Application of GARBERVILLE GAS CORP.,  
a corporation, for order authorizing  
issue of stock.

Application  
No. 29131

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John Guthrie Heywood, for applicants.

O P I N I O N

In this application, Kenneth E. Knapp doing business as Garberville Gas Company and hereinafter sometimes referred to as Knapp, asks permission to sell all of his public utility gas properties and business to Garberville Gas Corp. He will also sell to the Corporation his nonutility gas properties and business. Garberville Gas Corp. asks permission to issue \$50,000 of stock, to issue not exceeding \$25,000 of notes or other evidences of indebtedness, and guarantee the payment of indebtedness for not exceeding \$50,000, all for the purposes hereinafter mentioned.

Knapp is engaged as a public utility in the business of selling propane and butane gas in Garberville. He also sells propane and butane gas in tanks in the vicinity of Garberville, and leases and sells gas tanks and gas appliances. For 1947 his

operating revenues are reported at \$94,778.52, segregated as follows:

Metered gas sales	\$12,146.10
Gas tank sales	42,815.45
Appliance sales	39,816.97

The record shows that Knapp has approximately 200 public utility gas consumers and about 800 gas consumers whom he supplies with tank gas.

In the operation of his business Knapp incurred indebtedness of approximately \$50,000. Included in such indebtedness is a judgment of about \$15,000 in favor of Ransome Co. against Knapp. Ransome Co. attached Knapp's funds and had a sheriff's keeper placed in Knapp's office to receive and disburse all funds. Paul F. Stewart has arranged to pay the Ransome Co. judgment and take an assignment thereof, and to pay other pressing obligations of Knapp provided the certificate of public convenience and necessity heretofore granted to Knapp and all of his property used in his gas business are transferred to Garberville Gas Corp. The record shows that Paul F. Stewart is to receive 51% of the stock which the Corporation will issue, and Knapp 49%. It further shows that Knapp or relatives of his will provide \$9,000 to pay some of the outstanding indebtedness.

Garberville Gas Corp. is a California corporation with an authorized capital stock of \$200,000, consisting of 20,000 shares of the par value of \$10 each. It will adopt the present rates, rules and regulations of Knapp. However, it intends to file in the near future with the Commission an application for permission to increase its public utility rates.

Applicants report the cost of Knapp's fixed capital in service on December 31, 1947, as follows:

<u>Item</u>	<u>Cost</u>	<u>Depreciation</u>	<u>Net</u>
Utility distribution capital	\$14,054.99	\$ 4,149.14	\$ 9,905.85
Utility general capital	1,330.21	683.52	646.69
Utility land	461.65	- -	461.65
Utility franchise	500.00	- -	500.00
Utility fixed capital-total	16,346.85	4,832.66	11,514.19
Other fixed capital:			
Transportation equipment	13,760.52	3,514.03	10,246.49
Propane storage tanks	5,125.00	896.87	4,228.13
Propane storage tanks leased to consumers	17,984.37	1,573.63	16,410.74
Total other fixed capital	36,869.89	5,984.53	30,885.36
Total fixed capital	\$53,216.74	\$10,817.19	\$42,399.55

Applicants allege that the above statement does not represent all the assets that will be acquired by Garberville Gas Corp. in that the statement does not include the contribution to be made by Knapp nor any current assets. Further, they allege that some fixed capital is not included in the statement or, if it is included, the cost of the same exceeded the cost shown above. They submit to the Commission for its consideration in support of the issuance of \$50,000 of stock the following pro forma statement:

Assets

Cash		\$ 1,500.00
Capital contribution by Knapp		9,000.00
Customers' accounts		15,000.00
Gas refunds		4,000.00
Sales tax		275.75
2/21/48 inventory 15,000 gals. @ 17¢		2,550.00
Storage tanks		5,500.00
Appliances		2,421.87
Parts and supplies		3,647.75
		<u>43,895.37</u>
Plant and equipment		
Utility	\$25,000.00	
Tanks	17,984.00	
Trucks	10,246.00	
Shop equipment	1,330.00	
Land	1,000.00	
Franchise	461.00	
		<u>56,021.00</u>
Total assets		<u>\$99,916.37</u>

Liabilities

Note due First N/Bk. Scotia		\$ 946.07
Conditional sales equipment		5,780.45
1947 GMC Commercial Credit Co.	\$3,420.96	
1938 GMC Bank of Scotia	2,087.47	
1943 Ford Bank of America	272.02	
Reserves for unknowns		5,000.00
Trade creditors		15,376.49
Assignment judgment	14,858.98	
Costs	42.05	
Int.	<u>113.00</u>	15,014.03
Unpaid auditor and attorney fees		2,500.00
County taxes		<u>1,431.69</u>
		46,048.73
Capital - Knapp		<u>53,867.64</u>
	Total liabilities	<u>\$99,916.37</u>

In the pro forma balance sheet the cost of the utility plant, including all tanks used for storage of gas for the Corporation is reported at \$25,000, whereas the depreciated cost of same prepared from available records is \$15,742. The record shows that applicants do not have a complete inventory of the properties to be acquired by Garberville Gas Corp. At the hearing they were unable to furnish the Commission with sufficient information which warrants the acceptance of the figures in the pro forma statement as a proper basis for an order authorizing the issue of \$50,000 of stock. The order herein will authorize Knapp to sell his public utility gas properties to Garberville Gas Corp. and will authorize the Corporation to issue \$35,000 of stock in part payment for said properties and business and for his nonutility gas properties and business. If it submits an inventory of its properties, the actual cost, estimated if not known, of such properties and an estimate of the accrued depreciation in the properties, we will give further consideration to its request to issue additional stock in the amount of \$15,000.

Applicants allege that Garberville Gas Corp. will find it advisable to sell gas tanks and gas appliances on an installment payment basis. Knapp has heretofore engaged in such business, and it is believed that it will be profitable for the Corporation to continue the same. In connection with the sale of appliances it is proposed to have the Corporation endorse the sales contracts and present them to some lending agency for discount. It will be necessary for the Corporation to guarantee the payment called for by the contracts. Inasmuch as the payments may extend over a period of more than twelve months, it asks permission to guarantee the payment of tank and appliance sales contracts up to an aggregate sum of not exceeding \$50,000. The testimony shows that it is doubtful whether the Corporation will at any time be called upon to make any payments under the guarantee.

For the purpose of purchasing personal property for use in its business, applicant Garberville Gas Corp. asks permission to issue notes or other evidences of indebtedness for not exceeding \$25,000, such indebtedness to be payable at more than twelve months after date of issue. The indebtedness is to be represented by notes or by conditional sales contracts, chattel mortgages or other security. The Corporation has not supplied the Commission with any copy of the form of indebtedness which it intends to execute nor has it supplied the Commission with satisfactory evidence showing that it needs the \$25,000. Before passing on this phase of the application, the Commission must have before it a copy of any proposed evidence of indebtedness which Garberville Gas Corp. desires to execute, together with a

statement showing the specific purposes for which the money borrowed will be expended.

A review of the application and of the testimony given in support of it, indicates to the Commission that its order at this time should authorize Garberville Gas Corp. to issue not exceeding \$35,000 par value of stock and to guarantee the payment of gas tank and appliance sales contracts in an aggregate amount of not exceeding \$50,000 at any one time outstanding. The request to issue the remaining \$15,000 of stock and to issue notes, or other evidences of indebtedness of \$25,000, will be held in abeyance until the Corporation has supplied additional information in support of these requests.

The action taken herein shall not be construed to be a finding of the value of the properties herein authorized to be transferred.

O R D E R

The Commission having considered the evidence submitted at the hearing had before Examiner Fankhauser and it being of the opinion that the money, property or labor to be procured or paid for through the issue of the stock herein authorized is reasonably required by Garberville Gas Corp. for the purposes herein stated, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income,

and that this application should at this time be granted to the extent indicated in this order, therefore,

IT IS HEREBY ORDERED as follows:

1. Kenneth E. Knapp, dba Garberville Gas Company, may on or before June 30, 1948, sell to Garberville Gas Corp. all of his public utility gas properties including the certificate of public convenience and necessity granted by Decision No. 31512, dated December 5, 1938, in Application No. 22178.
2. Garberville Gas Corp. may, provided it acquires all of Kenneth E. Knapp's, dba Garberville Gas Company, public utility gas properties and business and all of his nonutility gas properties and business, issue, on or before June 30, 1948, in part payment for such properties, \$35,000 par value of its common stock.
3. Garberville Gas Corp. may guarantee the payment or endorse contracts covering the sale by it of gas tanks and gas appliances in the aggregate amount at any one time outstanding of not exceeding \$50,000.
4. Garberville Gas Corp. shall, within thirty (30) days after it acquires said public utility properties and business, adopt the rates, rules and regulations now on file with the Commission covering gas service in Garberville and vicinity.
5. Garberville Gas Corp. shall, within thirty (30) days after it acquires said properties and business, file with the Commission a copy of the deed and a copy of the bill of sale

under which it holds title to said properties and business,  
together with a statement showing the number of shares of stock  
issued under the authority herein granted and to whom said shares  
of stock were issued.

6. The authority herein granted is effective upon the  
date hereof.

Dated at San Francisco, California, this 23<sup>rd</sup> day  
of March, 1948.

R. F. [unclear]  
Justus F. Casner  
Frank D. [unclear]  
Harold P. [unclear]  
Lawrence [unclear]  
Commissioners