

agreement and to issue \$2,712,000 par value of its common stock in payment for the properties of three affiliated pipe-line companies and for certain shares of stock of a fourth company, and for a certificate of public convenience and necessity to operate such properties. The three affiliated pipe-line companies are Pacific Public Service Company, Coast Industrial Gas Company and Gas Lines, Inc., hereinafter referred to as Pacific, Coast Industrial, and Gas Lines, respectively. The fourth company is Standard Pacific Gas Line Incorporated, hereinafter referred to as Stanpac.

A public hearing on this application was held before Commissioner Huls and Examiner Edwards in San Francisco on June 25, 1951, at which time it was consolidated for the purpose of receiving evidence with Application No. 31614, a rate proceeding brought by Coast Counties, the two matters being submitted on a common record. This decision will be limited ✓ to a consideration of the requests contained in Application No. 32492. The Commission has received no protest to the granting of such requests.

Briefly, Coast Counties owns, among other things, certain gas transmission and distribution lines which it utilizes in selling gas as a public utility to customers in the counties of Contra Costa, Santa Cruz, Santa Clara, San Benito, Monterey, Kern, Fresno, Kings and Merced. The affiliated pipe-line companies own certain facilities used or useful in transportation of natural gas, and have certain contracts with other parties relating to the purchase, transport and sale of natural gas, all as set forth in Exhibits 1 and 2 attached to Exhibit C filed in this proceeding. Coast Industrial, in addition, owns 5/14ths of the outstanding shares of stock, together with the

right to subscribe for or receive additional shares of Stanpac which corporation is the owner of a gas pipe line running from the Kettleman Hills field in Kings County to the City of Richmond in Contra Costa County, and by virtue of such ownership is entitled to use a like proportion of the capacity of the gas transport facilities of that company.

Pacific owns all the outstanding common stock of Coast Counties and all the outstanding stock of Coast Industrial and Gas Lines.

There is another affiliated company, Coast Natural Gas Company, hereinafter referred to as Coast Natural, also controlled through stock ownership by Pacific, which owns gas pipe lines and other facilities and has contracts for the purchase of gas. Coast Counties proposes to acquire the properties of Coast Natural through the issue of a short-term note for \$215,000.

It appears that in the conduct of its operations, Coast Counties receives gas delivered by Coast Natural over the facilities of that company and of the other companies to which reference is made herein. During the course of the hearing in the rate proceeding, some questions were raised concerning the intercompany transactions and the reasonableness of the charges by the affiliated companies for their services to Coast Counties. The present program was developed in order to resolve these questions and to simplify the intercompany relationship by placing the ownership and operation of the transport lines in Coast Counties. Upon the completion of the transactions, Coast Counties will be able to purchase natural gas on its own account from producers in the field and to transport it through pipeline facilities which it will own, or will be entitled to use, for delivery into its distribution systems.

The agreed purchase price to be paid by Coast Counties for the properties, exclusive of those of Coast Natural, is the sum of \$2,712,000, payable in common stock at par, subject to adjustments in cash for additions and betterments made between April 30, 1951, and the closing date and for prorating of real and personal property taxes and subsequent purchases of materials and supplies, unbilled revenues and uncollected accounts, and depreciation accruals, all as set forth in the agreement by the parties filed in this proceeding as Exhibit C. Coast Counties will succeed to the rights of the affiliated companies in the contracts to which reference has been made and will assume the obligations imposed by such contracts.

The application indicates that Coast Counties proposes to record on its books the acquisition of the physical properties at their [book values, less the adjusted depreciation reserves,] as of April 30, 1951, as set forth in Exhibit E. The book entries suggested by it for this transaction and also for the acquisition of the securities of Stanpac are set forth in that exhibit as follows:

Ac. No.		Debit	Credit
100.12	Utility property, plant and equipment	\$1,056,040.90	
100.3	Construction work in progress	10,662.17	
131	Materials and supplies	17,076.50	
200	Common capital stock		\$ 962,000.00
250.12	Reserve for depreciation		121,779.57

To record acquisition of the physical properties of Pacific Public Service Company, Coast Industrial Gas Company, and Gas Lines, Inc. pursuant to the agreement dated June 15, 1951, at the net depreciated book value as of April 30, 1951.

<u>Investments</u>			
111.1	Capital stock of Standard Pacific Gas Line Incorporated	\$1,575,000.00	
111.2	Notes of Standard Pacific Gas Line Incorporated	175,000.00	
200	Common capital stock		\$1,750,000.00

To record acquisition of 500 shares of capital stock and notes dated 4-14-48 and 4-12-51 of Standard Pacific Gas Line Incorporated from Coast Industrial Gas Company, in accordance with agreement dated 6-15-51. Coast Counties will establish a subsidiary record showing the depreciation reserve at December 31, 1950, to be \$2,265,000, and the remaining life method will be continued in the future.

A review has been made by members of the Commission's staff of the books and records of the affiliated pipe-line companies and no exception has been taken by them to the amounts to be entered in the plant and other accounts. ^{W. L. L.} The agreed purchase price for the stock of Stanpac is not to be distributed to plant accounts and will appear on Coast Counties' balance sheet as an investment in securities. It should be stated at this point that it has not been the policy of the Commission to recognize the purchase price of stock as an element of value in determining the base upon which to predicate rates for service.

It clearly appears that the transfer of properties as here proposed is in the public interest, and that an order should be entered authorizing the issue of stock. The Commission hereby finds that public convenience and necessity require, and will require, the maintenance and operation by Coast Counties of the properties to be acquired by it in accordance with the arrangements referred to in this application. The certificate to be granted in accordance with this finding is subject to the following provision of law:

"That the Commission shall have no power to authorize the capitalization of the franchise involved herein or this certificate of public convenience and necessity or the right to own, operate or enjoy such franchise or certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State or a political subdivision thereof as the consideration for the grant of such franchise, certificate of public convenience and necessity or right."

Coast Counties reports that upon its acquisition of the properties and contracts as here proposed, it will have available pipe-line capacity for the transportation of natural gas in excess

of its present or immediately foreseeable needs. It proposes, and asks authorization, to enter into an agreement allocating such excess capacity to Gas Lines to enable that company to transport gas of producers to be used by such producers, or their affiliated companies, for their own purposes, and not for resale, when and to the extent that Coast Counties does not require the use of such capacity for transportation of gas to its distribution systems. For all capacity used by Gas Lines under the proposed agreement, it will pay Coast Counties for gas deliveries at rates based upon charges agreed upon by the member companies of Stanpac for use of each other's capacity.

There is nothing in the record to show that the operation of the proposed agreement will interfere with the service by Coast Counties to the public. It should be considered that the proposed arrangement with Gas Lines is not a permanent one, necessarily, but that it may be revised or discontinued as experience is gained or as conditions may change in the future.

O R D E R

A public hearing having been held on this application, and the Commission having considered the matter and being of the opinion that it should be granted, as herein provided; that the money, property or labor to be procured or paid for through the issue of the stock herein authorized is reasonably required by applicant for the purpose specified herein; and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Coast Counties Gas and Electric Company, on or before September 30, 1951, may issue not exceeding \$2,712,000 par value of its common capital stock in payment for the properties and securities to which reference is made in this application, in accordance with the terms and conditions of the agreement filed in this proceeding as Exhibit C. The issue of such stock hereby is exempted from the requirements of the Commission's competitive bidding rule.

2. Coast Counties Gas and Electric Company may execute and carry out the provisions of the agreement, in the form submitted as Exhibit 3 to Exhibit C, allocating excess capacity to Gas Lines, Inc.

3. Coast Counties Gas and Electric Company, for accounting purposes, shall record on its books the journal entries set forth in Exhibit E.

4. A certificate of public convenience and necessity hereby is granted to Coast Counties Gas and Electric Company to maintain and operate the properties to be acquired by it from Pacific Public Service Company, Coast Industrial Gas Company, Gas Lines, Inc., and Coast Natural Gas Company as part of its public utility gas system.

5. Coast Counties Gas and Electric Company shall file with the Commission a report as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

6. The action taken herein shall not be construed to be a finding of the value of the properties and securities to be acquired by Coast Counties Gas and Electric Company.

7. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 3rd day of July, 1951.

A. T. [Signature]
Justin F. Caserio
Harold P. Hule
[Signature]
[Signature]
Commissioners.