

Company and Coast Counties Gas and Electric Company. The matters were taken under submission on January 28, 1954, and now are ready for decision.

The present proceedings are the initial ones in a longer range program having as its objective the consolidation of the properties of Pacific Gas and Electric Company and Coast Counties Gas and Electric Company. The electric and gas systems of Coast Counties Gas and Electric Company serve areas contiguous to areas served by Pacific Gas and Electric Company and can be operated as part and parcel of the larger operations of Pacific Gas and Electric Company. The systems of the two companies are interconnected. Coast Counties Gas and Electric Company now obtains all the electric energy it distributes and a substantial part of its supply of gas, by purchase or exchange, from Pacific Gas and Electric Company.

At this time Pacific Gas and Electric Company is moving to acquire only the stock of Pacific Public Service Company and Coast Counties Gas and Electric Company. At a later date it plans to take steps to acquire the properties of these two companies.

Pacific Public Service Company and Subsidiaries

Pacific Public Service Company is a California corporation existing as a holding company of securities of operating companies carrying on the business of producing and transporting natural gas and of furnishing natural gas, electric and water service to public utility customers. Its subsidiaries, which are wholly or partially owned, are as follows:

1. Coast Counties Gas and Electric Company. This company is a public utility engaged in operating gas systems in the counties of Contra Costa, Fresno, Kern, Kings, Merced, Monterey, San Benito, Santa Clara and Santa Cruz, in operating electric systems in the

counties of Monterey, Santa Clara, Santa Cruz and San Benito, and in operating a water system in Avon, Kings County. It owns 5/14ths of the outstanding stock of Standard Pacific Gas Lines, Incorporated, a nonprofit corporation which owns gas pipe lines in California.^{1/}

2. Gas Lines, Inc. This company is a nonpublic utility engaged in transporting gas under private contract for a limited number of producers. It owns no properties but is allotted excess capacity in the facilities wholly or partially owned by Coast Counties Gas and Electric Company.

3. Natural Gas Corporation of California. This company is a nonpublic utility engaged in exploring for and in producing natural gas from certain fields in California, owning certain properties in fee and leasing others. It sells natural gas to applicant and to Coast Counties Gas and Electric Company.

At one time Pacific Public Service Company owned the outstanding stock of Arrowhead and Puritas Waters, Inc., a corporation engaged in the bottled water business in southern California. Recently it has disposed of these holdings.

Consolidated Balance Sheet of Pacific Public Service Company

A consolidated balance sheet of Pacific Public Service Company and its subsidiaries as of December 31, 1953, as adjusted to give effect to the elimination of Arrowhead and Puritas Waters, Inc. and to reflect the dividend action of Pacific Public Service Company in January of 1954, appears in Exhibit 9 in this combined proceeding. A summary statement of the balance sheet is as follows:

^{1/} Pacific Gas and Electric Company owns 7/14ths of the outstanding stock of Standard Pacific Gas Lines, Incorporated, and Standard Oil Company of California owns the remaining 2/14ths.

Assets

Fixed assets -		
Coast Counties Gas and Electric Company	\$37,195,493.75	
Gas Lines, Inc.	321.79	
Natural Gas Corporation of California	868,793.99	
Pacific Public Service Company	176,535.11	
Total fixed assets	38,241,144.64	
Less - reserves	8,157,081.35	
Net fixed assets		\$30,084,063.29
Intangibles		1,565,417.30
Other investments		1,015,123.75
Current and deferred assets		4,610,822.26
Total		<u>\$37,275,426.60</u>

Liabilities and Capital

Funded debt		\$17,613,975.00
Current liabilities and deferred credits		5,659,327.78
Miscellaneous reserves		276,227.44
Contributions in aid of construction		280,827.18
Capital -		
Preferred stock of subsidiary	\$ 4,975,000.00	
Stock of Pacific Public Serv. Co. -		
Preferred	7,453,442.50	
Common	74,196.99	
Surplus	942,429.71	
Total capital		<u>13,445,069.20</u>
Total		<u>\$37,275,426.60</u>

Outstanding Stocks

Pacific Public Service Company owns all the outstanding stock of Gas Lines, Inc. and Natural Gas Corporation of California and all of the common stock, but none of the preferred, of Coast Counties Gas and Electric Company. The outstanding shares, excluding intercompany holdings, are as follows:

	Number of Shares	Par Value	Total Par Value
Pacific Public Service Company -			
\$1.30 preferred	298,137.7	\$25.00	\$7,453,442.50
Common	741,969.85	.10	74,196.99
Coast Counties Gas and Elec. Co. -			
Series A, 4% preferred	124,000	25.00	3,100,000.00
Series B, 4-80% preferred	75,000	25.00	1,875,000.00

At one time, 448,712 of the outstanding shares of common stock of Pacific Public Service Company were held by Standard Oil

Company of California. The record shows that early in 1953 Standard Oil Company of California indicated its desire to dispose of its holdings of such shares, that Blyth & Co., Inc. and certain other groups representing out-of-state interests, as well as applicant, undertook to submit bids for the shares, and that the oil company accepted the cash bid of \$21 a share made by Blyth & Co., Inc. Pacific Gas and Electric Company at that time offered to issue .6 of a share of its common stock in exchange for each share of common stock of Pacific Public Service Company.

Blyth & Co., Inc. also acquired certain shares of Pacific Public Service Company's common stock from minority shareholders and now holds 623,651 shares, or 84% of the total number outstanding. The remaining outstanding shares, of all classes, are held by approximately 5,600 shareholders.

Acquisition by Pacific Gas and Electric Company

Pacific Gas and Electric Company now has entered into an agreement, subject to receiving the requisite governmental authorization, to acquire the holdings of Blyth & Co., Inc. in the common stock of Pacific Public Service Company and to issue and deliver in exchange therefor, 330,535 fully paid shares of its common stock, being at the rate of .53 of a share of Pacific Gas and Electric Company common stock for each share of the common stock of Pacific Public Service Company.^{2/}

Applicant also proposes to make an offer to the holders of the remaining shares of Pacific Public Service Company common stock to issue and exchange for each of such shares .53 of a share of its

^{2/} Since the original acquisition by Blyth & Co., Inc. in 1953, Pacific Public Service Company has disposed of the Arrowhead and Puritas Waters, Inc. and has paid out a special dividend of \$2.35 a share.

own common stock, the exchange ratio being the same as that employed in the exchange with Blyth & Co., Inc. It also proposes to offer its shares of preferred and common stock in exchange for the preferred shares of Pacific Public Service Company and Coast Counties Gas and Electric Company on the following bases:

1. For each share of \$1.30 preferred stock of Pacific Public Service Company cumulative preferred stock, par value \$25, callable at \$27.50, it will offer one share of its 5% redeemable cumulative first preferred stock, \$25 par value, or .70 of a share of its common stock.

2. For each share of the Series A, 4% cumulative preferred stock of Coast Counties Gas and Electric Company, par value \$25, callable at \$27, it will offer .8 of a share of its 5% redeemable cumulative first preferred stock or .70 of a share of its common stock.

3. For each share of the Series B, 4.80% cumulative preferred stock of Coast Counties Gas and Electric Company, par value \$25, callable at \$27, it will offer one share of its own 4.80% redeemable cumulative first preferred stock, \$25 par value, or .70 of a share of its common stock.

Under the proposed exchange offers the maximum numbers of shares of each class of stock which applicant may be called upon to issue, depending on the acceptance by the present shareholders and on their selection of method of exchange, are as follows:

Common stock	-	741,241 shares
5% preferred stock	-	397,338 shares
4.80% preferred stock	-	75,000 shares

Effect of Exchange on Shareholders

It appears the exchange ratio for the shares of common stock was determined by bargaining between applicant and Blyth & Co., Inc.^{3/} and the exchange offers to the holders of the presently outstanding preferred shares were based in part on the redemption prices of such preferred shares and in part on dividends.

At the prevailing market for Pacific Gas and Electric Company common stock of approximately \$40, the holders of all three

^{3/} Applicant's common stock currently is selling at about \$40 a share. During January, 1954, the common stock of Pacific Public Service Company sold at a range of 20-1/2 to 20-3/4.

classes of preferred stock, if they elect to accept the .70 of a share of common for each of their preferred shares, will receive approximately \$28 in market value as compared with redemption prices of their present holdings of \$27.00 and \$27.50. At the presently prevailing annual dividend of \$2.20 on Pacific Gas and Electric Company common, they will receive annual income of \$1.54 for each .70 of a share, as compared with annual dividends of \$1.30 on the Pacific Public Service Company preferred stock, of \$1.00 on the Series A preferred stock of Coast Counties Gas and Electric Company and of \$1.20 on the Series B preferred stock of that company.

If the preferred shareholders elect to accept preferred stock of Pacific Gas and Electric Company, those holding the Coast Counties Gas and Electric Company preferred, of both classes, will continue to receive the same annual dividend of \$1.00 for the Series A and \$1.20 for the Series B. The holders of the preferred stock of Pacific Public Service Company, in accepting the exchange of preferred stock, would receive annual dividends of \$1.25 as compared with their present dividend of \$1.30. Applicant points out, however, that such holders will receive a stock which consistently has sold at a higher price on the market. On the date the exchange offer was announced, Pacific Gas and Electric Company's 5% preferred was selling at \$28.25 and Pacific Public Service Company's \$1.30 preferred at \$26.25.

Nonassenting Shareholders

The shareholders of Pacific Public Service Company and Coast Counties Gas and Electric Company are under no obligation to accept the offers to exchange their holdings for shares of Pacific Gas and Electric Company. If they do not choose to surrender their shares for exchange they may continue to hold them, with the same rights and privileges they now possess.

If Pacific Gas and Electric Company is successful in obtaining 2/3rds of each class of stock of Pacific Public Service Company and Coast Counties Gas and Electric Company, it intends to effect a merger with these two corporations. With respect to non-assenting shareholders in the event of such a transaction occurring, Section 4300 of the California Corporations Code provides as follows:

"In the event that the requisite number of shareholders of a corporation approve its merger or consolidation with another corporation, domestic or foreign, any holder of voting or non-voting shares who did not approve the merger or consolidation at the meeting at which it was approved may, by complying with this article, require the corporation of which he is a shareholder to purchase his dissenting shares and to pay him their fair market value. The fair market value shall be determined as of the day before the vote of the shareholders approving the agreement of merger or consolidation, excluding any appreciation or depreciation in consequence of the proposed action."

The code provides for appraisal of the fair market value of shares in a court proceeding in the event no agreement is reached as to value.

Accounting for Acquisition of Shares

By a resolution adopted January 20, 1954, the board of directors of Pacific Gas and Electric Company determined the fair values of the shares of stock to be received in consideration of the exchanges for its own shares, as follows:

Pacific Public Service Company -	
Common stock	\$18.93 a share
Preferred stock	25.00 a share
Coast Counties Gas and Electric Company -	
Series A preferred stock	20.00 a share
Series B preferred stock	25.00 a share

It intends to record its acquisition of these shares, or any part of them, as a debit in Account 111, Investment in Associated Companies, at the foregoing prices and to credit the amounts in Account 200, Common Capital Stock, Account 201, Preferred Capital Stock and Account 203, Premium on Capital Stock, as appropriate.

If the company obtains all the shares of Pacific Public Service Company and Coast Counties Gas and Electric Company, the total amount to be debited in Account 111, as representing its recorded investment in such shares, will be approximately \$25,849,000.

Earnings

In presenting these matters to the Commission applicant asserts that the earnings of the Pacific Public Service Company group of companies will be ample to meet the carrying charges on the shares of stock it proposes to issue. It estimates that the net earnings for 1954 from the operations of the Pacific Public Service Company group, assuming rates recently authorized by the Commission to be in effect for the entire year, would be equivalent to \$3.32 a share on the common stock to be issued by Pacific Gas and Electric Company in exchange for the common stock of Pacific Public Service Company, as compared with its \$2.20 prevailing annual dividend.

The earnings of \$3.32 do not take into account annual savings which applicant estimates will follow the merger of the utility properties. It asserts that the combination of the two properties into a single organization will result in more effective and economical administration and operation, with possible savings being effected in the following accounts:

Customer accounting and collecting expenses	\$143,894
Administrative and general expenses	601,421
Sales promotion expenses	100,000
Total	845,315
Increase in taxes on income resulting from reduction expenses	455,794
Net additional income	<u>\$389,521</u>

The testimony shows that in communities now being served by the two utilities, where separate offices are being maintained, savings can be expected by the use of a single staff. One set of

meter readers, rather than two, will read all meters, electric and gas being read at the same time, a single bill prepared by a single staff of clerks will be presented to the customers, and a single collection made for the two services. Applicant estimates that customer accounting and collection expenses can be reduced by \$1.47 a customer through elimination of duplicate offices and staffs.

The acquisition of the other companies by Pacific Gas and Electric Company will eliminate expenses which are incurred in maintaining separate corporate entities, such as those required for stock records, general books and supporting records, and tax returns, annual and other reports. Applicant shows that its administrative and general expenses amount to \$4.73 a customer and those of Coast Counties Gas and Electric Company to \$8.56 a customer. It is of the opinion it can absorb the present customers attached to the lines of Coast Counties Gas and Electric Company at no greater average cost per customer than it now incurs.

The savings in sales promotion expenses will be realized, according to the testimony, by the elimination of the cost of obtaining competitive business in the communities now served by the separate companies.

Objections by Certain Shareholders at Hearings

During the hearing on January 28, a representative of one stockholder objected to the terms of the exchange of common shares,

the name of the stockholder, the extent of the holding and the basis of the objection not being revealed.

Another shareholder, owning 200 shares of Pacific Public Service Company's preferred, objected to the reduction in dividends and indicated his desire to surrender his shares for payment.

As we have indicated earlier in this decision, the non-assenting shareholders are under no compulsion to exchange their shares and, in the event of a subsequent merger, have their rights to a determination of the fair value of their stock.

Summary, Conclusions and Finding.

Summarizing, it appears from the record that the integration of the public utility systems should result in operating advantages in the service area of Coast Counties Gas and Electric Company in that more effective use no doubt can be made of the facilities of Pacific Gas and Electric Company as the load in the area increases and that substantial savings in costs can be effected through a consolidation of the administration, operation and maintenance activities and the elimination of certain duplications in these functions in areas where one company supplies the gas service and the other the electric service.

At the outset, Pacific Gas and Electric Company is contemplating merely the acquisition of the stocks of Pacific Public Service Company and its subsidiaries and it may be some time before the actual merger proceedings of the physical properties are perfected. In the meantime, it appears that Coast Counties Gas and Electric Company will be operated as an independent company, observing such rate, depreciation and other orders of the Commission as have been authorized or approved for that company, unless they are hereafter changed by the Commission.

During the course of the hearings there were brought up for discussion such matters as the ultimate disposition of Gas Lines, Inc.; the conditions under which service is provided to industrial customers by Coast Counties Gas and Electric Company at this time, and the amount and disposition of any acquisition adjustment which might arise following the merger of the properties.

These matters are not now before us and cannot be determined until such time as the request to transfer the properties of Coast Counties Gas and Electric Company to Pacific Gas and Electric Company is brought before the Commission. It does appear that Pacific Gas and Electric Company's recorded investment in the stocks of the Pacific Public Service Company group of companies will be approximately \$25,849,000 and that the reported adjusted net book values of the assets of the group as of December 31, 1953, as reflected in the balance sheet set forth in this decision, was approximately \$13,445,000. The record shows that in stating the balance sheet the utility plant of Coast Counties Gas and Electric Company is reflected on an original cost basis; that is, the cost to the first person devoting the properties to public use, and that the properties of the other companies are stated on the basis of cost to them. Applicant asserts that the recorded amounts do not reflect the actual value of gas reserves owned by Natural Gas Corporation of California and that it believes such value, while not capable of precise estimation due to the many factors which will be determined by future events such as rates of withdrawal, incidence of taxes and market prices, is adequate when added to the value of other assets to justify the proposed exchange of stock.

It is our conclusion, based upon the record in these proceedings, that applicant's requests should be granted. Should applicant be successful in obtaining the shares of stock it now seeks,

it intends to proceed as rapidly as possible with its plans to merge and integrate the public utility properties. It appears to us that advantages of merger and savings in operations can be made to accrue to the benefit of the consumers and that the fact of merger should not in itself result in additions to the rate base or operating expenses because of acquisition adjustment charges.

Upon the basis of the foregoing recitals, we are of the opinion, and hereby find, that the proposed acquisition of shares of stock by Pacific Gas and Electric Company will not be adverse to the public interest, that the terms and conditions of the issuance and exchange of stock, as herein proposed, are fair and reasonable, and that the money, property or labor to be procured or paid for by the issue of the shares of stock herein authorized is reasonably required by applicant for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

O R D E R

Public hearings having been held on the above entitled matters, and the Commission having considered the evidence and being of the opinion that the applications should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Pacific Gas and Electric Company may issue not exceeding 741,241 shares of its common stock, not exceeding 397,338 shares of its 5% redeemable first preferred stock, and not exceeding 75,000 shares of its 4.80% redeemable first preferred stock in exchange for the outstanding shares of stock of Pacific Public Service Company

and Coast Counties Gas and Electric Company, in accordance with the bases of exchange set forth in these proceedings. The terms and conditions of such exchange are hereby approved.

2. Pacific Gas and Electric Company may acquire and hold the outstanding shares of stock of Pacific Public Service Company and Coast Counties Gas and Electric Company.

3. Pacific Gas and Electric Company, on or before June 30, 1954, shall file with the Commission a statement showing the number of shares of stock of each class of Pacific Public Service Company and Coast Counties Gas and Electric Company acquired by it, the number of shares of its own stock which it issued in exchange, and the journal entries used to record on its books the acquisition of such shares of stock.

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

Dated at San Francisco, California, this 16th day of February, 1954.

A. Z. Indrany
President

Justus J. Calver

Kenneth Pottel

John E. McMillan

Gene Roggins
Commissioners