

ORIGINAL

Decision No. 50216

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 PACIFIC GAS AND ELECTRIC COMPANY for)
 an order authorizing applicant to)
 acquire, take, and hold capital stock)
 of COAST COUNTIES GAS AND ELECTRIC)
 COMPANY; and to issue, as fully paid,)
 shares of its common capital stock in)
 conversion of outstanding shares of)
 capital stocks of PACIFIC PUBLIC)
 SERVICE COMPANY.)
 -----)

Application
No. 35479

Robert H. Gerdes, F. T. Searls and W. E. Johns by
F. T. Searls and W. E. Johns, for applicant;
 Dion R. Holm, City Attorney, and Paul L. Beck,
 Chief Valuation and Rate Engineer, by Paul L. Beck,
 for the City and County of San Francisco, interested
 party; Lewis R. Knerr and John F. Donovan, for the
 staff of the Commission.

O P I N I O N

Pacific Gas and Electric Company has filed this application for authorization to acquire and hold capital stock of Coast Counties Gas and Electric Company and to issue shares of its common stock upon conversion of the outstanding shares of common and preferred stock of Pacific Public Service Company.

The application was filed with the Commission on May 28, 1954. A public hearing was held before Examiner Coleman in San Francisco on June 22, 1954, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Pacific Gas and Electric Company now owns 98.2% of the outstanding common stock and 88.7% of the outstanding preferred stock of Pacific Public Service Company, a holding company which in turn owns all the outstanding common stock of Natural Gas Corporation of California, Gas Lines, Inc. and Coast Counties Gas and Electric

Company.^{1/} Its only tangible property consists of furniture and fixtures used in its executive offices.

It appears that Pacific Gas and Electric Company now desires to eliminate Pacific Public Service Company as an intermediate holding company and to take over and hold directly all the shares of stock of that company's subsidiaries. It proposes to accomplish this objective by means of an agreement of merger, whereby, upon completion of the merger, the separate existence of Pacific Public Service Company will cease and Pacific Gas and Electric Company, as the surviving corporation, will succeed to and become the owner of all the assets subject to the debts and liabilities. The agreement provides that each share of common stock of Pacific Public Service Company in the hands of the public shall be converted into .53 share of common stock of Pacific Gas and Electric Company, and each share of preferred stock of Pacific Public Service Company in the hands of the public shall be converted into .7 share of common stock of Pacific Gas and Electric Company. The conversion of all the publicly held shares of Pacific Public Service Company stock would call for the issue by Pacific Gas and Electric Company, at the conversion rates specified, of an aggregate amount of 30,519 shares of its common stock, of the par value of \$762,975.

It is reported that under the California Corporations Code the favorable vote of two-thirds of the shares of each class of stock of each corporation is necessary for approval of the agreement and that in the event any holder of shares of capital stock believes that his shares have a higher fair market value as of the day before the stockholders' meeting approving the agreement of merger, the code makes available to him a procedure whereby such fair market value may

^{1/} Pacific Gas and Electric Company owns approximately 94% of the outstanding preferred stock of Coast Counties Gas and Electric Company.

be determined and the company will be required to purchase the dissenting shares at such value.

By the transaction here proposed, Pacific Gas and Electric Company will replace Pacific Public Service Company as the holder of the common stock of Natural Gas Corporation of California, Gas Lines, Inc. and Coast Counties Gas and Electric Company, and its books will reflect investment in such stocks. This application does not involve the transfer, by merger or otherwise, of the public utility properties of Coast Counties Gas and Electric Company. The record shows that Pacific Gas and Electric Company is proceeding with plans to call for payment the outstanding long-term debt of Pacific Public Service Company and the outstanding shares of preferred stock of Coast Counties Gas and Electric Company and thereafter to file a further application for authority to acquire, by merger, the properties of the utility subsidiary.

Pacific Gas and Electric Company proposes to record on its books as its investment in the outstanding capital stock of Coast Counties Gas and Electric Company the net book value of that company as reflected by its books, so that upon the subsequent merger with that company the recorded investment in the properties now owned by Coast Counties Gas and Electric Company will be equal to the original cost of said properties, plus the book value of other assets acquired, less liabilities assumed. The excess of Pacific Gas and Electric Company's presently recorded investment in common and preferred stocks of Pacific Public Service Company over the net equity of such stocks as shown by the books of Pacific Public Service Company in general will be allocated to the investment in the nonutility subsidiary, Natural Gas Corporation of California.

The proposed transaction should simplify the intercorporate relationship and should result in some reduction in administrative expenses. From a review of the record we are of the opinion that the merger will not be adverse to the public interest. Accordingly, we will enter an order granting the application.

The action taken herein shall not be construed to be a finding of the value of the properties of Pacific Public Service Company.

O R D E R

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion 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 Pacific Gas and Electric Company 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. Pacific Gas and Electric Company may acquire, by merger with Pacific Public Service Company, and hold, all the outstanding common capital stock of Coast Counties Gas and Electric Company.
2. Pacific Gas and Electric Company, in acquiring the assets of Pacific Public Service Company by said merger, may issue, as fully paid, not to exceed 30,519 shares of its common capital stock upon conversion of the shares of common and preferred capital stock of Pacific Public Service Company outstanding in the hands of the public.
3. Pacific Gas and Electric Company may record said merger and issue of stock on its books in the manner set forth in this application.

4. Pacific Gas and Electric Company shall file with the Commission, for approval, a copy of the journal entries used to record said merger on its books, such filing to be made within 30 days after the date of such entries.

5. On or before December 31, 1954, Pacific Gas and Electric Company shall file with the Commission a report showing the number of shares of stock issued under the authority herein granted.

6. The authority herein granted will become effective 20 days after the date hereof.

Dated at San Francisco, California, this 29th day of June, 1954.

[Signature]
President

[Signature]
[Signature]

Commissioners

Commissioner Kenneth Potter, being necessarily absent, did not participate in the disposition of this proceeding.