

**ORIGINAL**Decision No. 54840

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 SUBURBAN UTILITIES and SOUTHERN COUNTIES )  
 GAS COMPANY OF CALIFORNIA for an order )  
 authorizing (1) the sale of liquefied )  
 petroleum gas plants at Buellton and )  
 Solvang, the execution and delivery of )  
 a Deed and Bill of Sale, and (2) the )  
 issuance of certificates of public con- )  
 venience and necessity to SOUTHERN )  
 COUNTIES GAS COMPANY OF CALIFORNIA )  
 covering the conversion to natural gas )  
 and the operation of the systems in )  
 Buellton and Solvang under Santa )  
 Barbara County Franchise No. 432. )

Application No. 38612

Milford Springer and J. R. Rensch, for Southern  
 Counties Gas Company of California and  
 Suburban Utilities.

J. J. Deuel and Eldon Dye, for California Farm  
 Bureau Federation.

Wm. W. Eyers, for the Commission's staff.

O P I N I O N

Suburban Utilities, one of the applicants herein, renders liquefied petroleum gas service to the Solvang and Buellton areas under authority of certificates of public convenience and necessity which were transferred to it by Decision No. 44279, dated June 7, 1950, in Applications Nos. 30903 and 30904. The transferrer in those proceedings was the Southern Counties Gas Company.

Southern Counties Gas Company presently is authorized to engage in the purchase and distribution of gas as a public utility in designated areas in the State of California. So far as the instant proceeding is concerned, it is the successor in interest to the grantee of Franchise Ordinance No. 432 of the County of Santa

Barbara, dated October 1, 1928. This franchise is for a period of fifty years.

In the instant proceedings this Commission is asked to approve the sale of the Buellton and Solvang liquefied petroleum gas systems by Suburban Utilities to Southern Counties Gas Company. This last named company also requests a certificate of public convenience and necessity to extend its facilities to render natural gas service to the two communities involved. The proposal is to discontinue the liquefied petroleum gas service and substitute therefor natural gas. The application also requests approval of the transfer of the certificates of public convenience and necessity authorizing the exercise of Santa Barbara County franchise rights.<sup>1</sup> Finally a certificate of public convenience and necessity is requested to permit Southern Counties Gas Company to exercise the franchise rights under Santa Barbara County Franchise Ordinance No. 432. In the installation of natural gas service Southern Counties Gas Company requests authority to deviate from its Main Extension Rule No. 20.

A public hearing was held in Solvang on February 20, 1957, before Examiner Grant E. Syphers, at which time evidence was adduced and the matter submitted.

The testimony presented indicates that there is now available an adequate supply of natural gas, and accordingly its installation has become economically feasible. This is so not only because of the supply, but also as a result of population growth in the area. The present number of customers, coupled with the anticipated growth of the area, now makes the installation of natural gas facilities

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<sup>1</sup> Decision No. 23124, dated November 28, 1930, in Application No. 16891, 35 C.R.C. 522; Decision No. 23566, dated April 6, 1931, in Application No. 17246, 36 C.R.C. 115.

economically feasible, and it was the opinion of the applicant's witnesses that this natural gas service can be provided at a lower cost than liquefied petroleum gas service.

Suburban Utilities also presented testimony to the effect that it desires to divest itself of any public utility operations. Its principal business is the distribution of tank gas, and it intends to concentrate in that field.

The proposed purchase price is \$50,000. Exhibit 1 is a copy of the Agreement of Sale, and Exhibit 2 is a copy of the Deed and Bill of Sale which the applicants propose to execute.

The land, rights of way, structures, facilities and franchises proposed to be transferred are listed in Exhibit 2. The applicant Southern Counties Gas Company proposes to charge to Account 505, Amortization of Gas Plant Acquisition Adjustment, the amount of the acquisition cost in excess of the net original cost rather than to charge it to earned surplus. The net original cost less depreciation of these facilities was shown in Exhibit No. 10 to be \$8,994.46.

Further exhibits presented consist of the financial statements of applicants, a map of the area showing existing and proposed facilities, and a copy of the County Franchise Ordinance No. 432 previously referred to.

An economic feasibility study received in evidence estimates that for the first full year of operation, if the sale is approved, the net revenue will amount to \$10,158, or a return of 3.3% on a rate base of \$312,500, as shown in Exhibit No. 7.

Exhibit 8 sets out the proposed tariffs which Southern Counties Gas Company intends to adopt. Exhibit 10 sets out the original cost of the facilities involved, and Exhibit 11 the

proposed accounting entries which will be used in recording the purchase.

It should be noted that the agreement contained in Exhibit 1 sets a tentative date of April 30, 1957, for the installation of natural gas facilities. Witnesses testified that this date cannot now be met and that it will be approximately August 31, 1957, before these facilities can be installed. Therefore, the sales proposal was altered at the hearing and authority was requested to permit the parties to complete the sale by April 30, 1957, and then to permit Southern Counties Gas Company to lease the facilities back to Suburban Utilities, which latter company would operate the present liquefied petroleum gas system until the natural gas facilities are installed and ready to operate. Exhibit 13 is an affidavit of the president of Suburban Utilities agreeing to this sale and lease-back arrangement. Southern Counties Gas Company representatives agreed to this arrangement at the hearing.

There was no opposition to this proposal and an analysis of the evidence discloses and we now find that it would not be adverse to the public interest to permit the sale. We further find that public convenience and necessity require the issuance of the certificates and the transfer of certificates hereinafter authorized. In order that applicants will have sufficient time to complete the proposed sale, the effective date of this order shall be the date hereof.

The proposal of applicant to charge the amount of acquisition cost in excess of the net original cost to operating expense rather than earned surplus will be permitted. The circumstances here indicate that the acquisition of this property is clearly in the public interest because of lower operating costs and economies which

will be reflected in rates charged the public. Therefore, it appears to be fair and reasonable, in order to make the purchaser whole, to allow the amortization of the excess purchase price as an operating expense.

O R D E R

Application as above entitled having been filed, public hearing having been held thereon, the Commission having been fully advised in the premises and having found the proposal to be not adverse to the public interest, and good cause appearing,

IT IS ORDERED:

(1) That on and after the effective date hereof, and on or before April 30, 1957, Suburban Utilities may sell and transfer the herein referred to public utility property to Southern Counties Gas Company of California, pursuant to the Agreement of Sale, a copy of which was received in evidence herein as Exhibit 1, and may execute a Deed and Bill of Sale in the same form and content as the copy thereof received in evidence as Exhibit 2 in these proceedings. The transferee may charge to Account 505, Amortization of Gas Plant Acquisition Adjustment during the year 1957, the acquisition cost in excess of the original cost less depreciation.

(2) That a certificate of public convenience and necessity be and it hereby is granted to Southern Counties Gas Company of California to construct and operate an extension of its public utility system for the distribution of natural gas in the areas of Buellton and Solvang as more particularly described in Exhibit 5, received in these proceedings.

(3) That Suburban Utilities be and hereby is authorized to transfer to Southern Counties Gas Company of California all rights

and authority which it holds to serve the Buellton and Solvang areas herein concerned under certificates of public convenience and necessity issued by this Commission in Decisions Nos. 23124, dated November 28, 1930, in Application No. 16891, and 23566, dated April 6, 1931, in Application No. 17246, for the exercise of Santa Barbara County franchise rights in the Buellton and Solvang areas herein concerned.

(4) That Southern Counties Gas Company of California be and hereby is granted a certificate of public convenience and necessity to exercise the rights and privileges granted by the County of Santa Barbara under Franchise Ordinance No. 432, adopted October 1, 1928, as such ordinance relates to the Buellton and Solvang areas herein requested.

(5) That certificates of public convenience and necessity hereinabove granted are 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 to a political subdivision thereof as the consideration for the grant of such franchise, certificate of public convenience and necessity or right.

(6) Southern Counties Gas Company of California is authorized to file in accordance with General Order No. 96, revised Schedules G-6.2, G-41, G-45 and G-50, and on not less than five days' notice to this Commission and to the public to make such filing effective on the date that natural gas service is first furnished to the Solvang and Buellton areas.

(7) That on or before the date of actual transfer, Suburban Utilities shall refund all deposits and advances for construction

which are subject to refund; and that any unrefunded deposits and advances for construction shall be transferred to and become the obligation for refund of Southern Counties Gas Company of California.

IT IS FURTHER ORDERED that Southern Counties Gas Company of California be and hereby is authorized to lease to Suburban Utilities the utility properties herein involved for the distribution of liquefied petroleum gas in the Buellton and Solvang areas for a period not to extend beyond December 31, 1957, and the parties may enter into a lease agreement in the same form and content as the copy thereof received in evidence as Exhibit 4 in these proceedings.

IT IS FURTHER ORDERED that Southern Counties Gas Company of California, in the operation of the natural gas system herein authorized in the Buellton and Solvang areas, may deviate from its Main Extension Rule No. 20 in order to permit the necessary installations of pipe to convert from the present liquefied petroleum gas system to natural gas, which installations will be made free of charge to existing customers.

The effective date of this order shall be the date hereof.

Dated at San Francisco, California, this 16<sup>th</sup> day of APRIL, 1957.

[Signature]  
President

[Signature]

[Signature]

[Signature]

[Signature]  
Commissioners