

**ORIGINAL**

Decision No. 56327

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CRESCENT CITY GAS COMPANY, a California corporation, for an Order authorizing the transfer of its Certificate of Public Convenience and Necessity and Assets to DEL NORTE GAS CO., a California corporation, to operate gas service in and around Crescent City, California; and

Application No. 39790

In the Matter of the Application of DEL NORTE GAS CO. to authorize the issuance of Capital Stock A Series and B Series; and

In the Matter of the Application of CRESCENT CITY GAS COMPANY to discontinue its operations.

O P I N I O N

This is an application for an order authorizing Crescent City Gas Company, a corporation, to transfer operative rights and properties to Del Norte Gas Co., a corporation, and authorizing Del Norte Gas Co. to issue \$89,600 par value of stock.

Crescent City Gas Company was organized in 1946. By Decision No. 40803, dated October 10, 1947, in Application No. 28612, the Commission granted to it a certificate of public convenience and necessity to exercise the rights and privileges granted by the City of Crescent City by Ordinance 329, adopted April 14, 1947, and by the County of Del Norte by Ordinance 163, adopted September 30, 1947, and to install, maintain and operate a propane-air gas system and render service by means thereof as a public utility in Crescent City

and vicinity. The company thereafter undertook the construction of its gas plant and commenced operations in the latter part of 1948.

The financial statement of Crescent City Gas Company, which is filed in this proceeding as Exhibit A, shows the condition of the corporation as of November 15, 1957, and indicates that its operations have resulted in losses. A condensed statement is as follows:

<u>Assets</u>		
Utility plant	\$91,832.10	
Less - depreciation reserve	<u>20,957.04</u>	
Net plant		\$70,875.06
Current assets		<u>6,856.93</u>
Total		<u><u>\$77,731.99</u></u>
<u>Liabilities and Capital</u>		
Current liabilities		\$15,040.74
Due Crescent City Water Co.		27,375.91
Due Otto E. Never		<u>44,342.22</u>
Total liabilities		86,758.87
Capital -		
Common stock	\$20,948.00	
Earned surplus - deficit	<u>(29,974.83)</u>	
Total capital		<u>(9,026.83)</u>
Total		<u><u>\$77,731.99</u></u>

All of the outstanding stock was reported held by Otto E. Never who also held all the outstanding stock of Crescent City Water Company, except two directors' shares in each company. The outstanding current liabilities of \$15,040.74 consisted of the following:

Cities Fuel Corporation	\$ 9,686.24
The Sprague Meter Co.	7.73
Pacific Gas and Electric Co.	27.09
E. J. Menzel	135.00
American Liquid Gas Corp.	300.70
American Meter Co.	42.64
Reconstruction Finance Corp.	1,393.49
City of Crescent City	319.13
County of Del Norte	2,271.20
Consumers' deposits	601.52
Accrued interest	<u>256.00</u>
Total	<u>\$15,040.74</u>

It appears that Otto E. Never desires to withdraw from the operation of the gas business. An agreement has been made whereby Crescent City Gas Company will sell its certificate of public convenience and necessity and its gas properties to Del Norte Gas Co. and the latter, in consideration, will assume the payment of the outstanding liabilities of \$15,040.74 (and any or all claims that may arise out of an action brought by Cities Fuel Corporation, a creditor) and will pay the sum of \$5,000 in cash upon delivery of the deed and bill of sale and, on or before one year from the date of the closing of the sale, will pay the sum of \$3,221.86 with interest at the rate of 5% per annum, the amount to be evidenced by a nonnegotiable promissory note. The indebtedness due Crescent City Water Company of \$27,375.91 and the indebtedness due Otto E. Never of \$44,342.22 will not be assumed by Del Norte Gas Co.

Del Norte Gas Co. was organized on or about November 26, 1957, with an authorized capital stock of 20,000 shares of the par value of \$10 each, divided into 2,500 Class A shares and 17,500 Class B shares. The holders of the Class A shares shall not be entitled to any voting rights. The holders of the Class B shares

shall be entitled to all voting rights, but shall not be entitled to receive any dividends while any of the Class A shares shall remain outstanding. The Class A shares are redeemable out of net profits, at the option of the corporation, at their par value. At this time, Del Norte Gas Co. seeks authorization to issue \$9,600 par value of its Class A stock to Cities Fuel Corporation in satisfaction of outstanding indebtedness, an agreement to that end having been made on January 21, 1958, and to issue \$80,000 par value of its Class B stock against the assets to be acquired and against \$15,000 in cash to be paid into the corporation by the shareholders.

As set forth in the balance sheet appearing earlier in this decision, the recorded cost of the plant accounts aggregated \$91,832.10. An examination by the Commission's staff indicates that this amount includes certain intercompany profits amounting to \$6,304.50 and certain sums aggregating \$7,631 representing the cost of lines extending to a new subdivision, which lines are not in operation, the two items aggregating \$13,935.50. The new corporation has advised the Commission in writing that it proposes to set up its books to reflect the elimination of these two sums from the gas plant accounts, with a reduction in the related depreciation reserve of \$1,130.04. The \$7,631 item will be transferred to Account 100-4, Gas Plant Held for Future Use.<sup>1/</sup>

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<sup>1/</sup> The provisions of Account 391 of the Uniform System of Accounts require Del Norte Gas Co., within six months after acquisition of the properties of Crescent City Gas Company, to file with the Commission its proposed journal entries distributing its costs to primary plant and other accounts.

Giving effect to these adjustments it appears that Del Norte Gas Co. will enter upon its operations with the following setup:

Utility plant	\$77,896.60		
Plant held for future use	<u>7,631.00</u>	\$85,527.60	
Less - depreciation reserve		<u>19,827.00</u>	
Net balance		65,700.60	
Cash		<u>15,000.00</u>	
Total			\$80,700.60
Less -			
Current liabilities	6,440.74		
Class A stock	9,600.00		
One-year note	<u>3,221.86</u>		<u>19,262.60</u>
Balance for Class B stock			<u>\$61,438.00</u>

Del Norte Gas Co. proposes to adopt the schedules of rates now in effect.

The application shows that the organizers of Del Norte Gas Co. have been operating the plant since November 15, 1957. The new corporation's president, Paul F. Stewart, owns all of the outstanding stock of Garberville Gas Corp., and for a number of years has been engaged in the public utility gas business in Garberville. Garberville Gas Corp. owns all of the outstanding stock of Blue Star Gas Co., a corporation which is engaged, among other things, in supplying liquified petroleum gas to the public utility. The Class B shares of stock of Del Norte Gas Co. will be held in equal proportions by Blue Star Gas Co. and Cities Fuel Corporation. In any subsequent rate proceeding, the Commission, of course, will consider the reasonableness of charges for gas which may be delivered to Del Norte Gas Co. by the two gas suppliers which, directly or indirectly, may hold its voting stock.

Upon a review of this application, we are of the opinion, and so find, that the proposed transfer will not be adverse to the public interest but that the assets to be acquired by Del Norte

Gas Co. will not support the issue of Class B stock in the amount requested. The order herein will authorize the issue of 6,144 shares of Class B stock, as well as the 960 shares of Class A stock.

The authorization herein granted is not to be construed as indicative of amounts to be included in a future rate base or in operating expenses for the purpose of determining just and reasonable rates.

O R D E R

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of 7,104 shares of stock is reasonably required for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Crescent City Gas Company may transfer its certificate of public convenience and necessity and its gas plant to Del Norte Gas Co., such transfer to take place for accounting purposes as of December 31, 1957.

2. Upon completion of the transfer of the certificate and properties under the authorization herein granted, and upon compliance with the conditions of this order, Crescent City Gas Company shall stand relieved of all public utility obligations

in connection with the operation of the public utility gas system herein authorized to be transferred.

3. Del Norte Gas Co., in acquiring the properties of Crescent City Gas Company, shall assume the payment of outstanding indebtedness of \$15,040.74. Del Norte Gas Co. may issue \$9,600 par value of its Class A stock in payment of outstanding indebtedness to be assumed by it and may issue not exceeding \$61,440 of its Class B stock in payment for the certificate and properties of Crescent City Gas Company and for working cash in the amount of \$15,000.

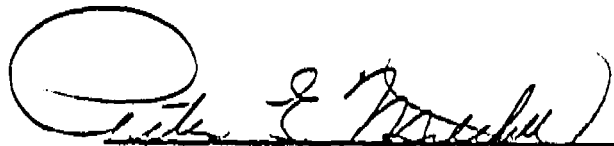


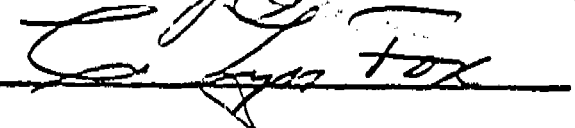
4. On or before the date of actual transfer, Crescent City Gas Company shall refund all deposits which customers are entitled to have refunded. Any unrefunded deposits shall be transferred to and become the obligation for refund of Del Norte Gas Co.

5. The rates, rules and regulations of Crescent City Gas Company now on file with the Commission shall be refiled within 30 days after the date of transfer under the name of Del Norte Gas Co., in accordance with the procedure prescribed by General Order No. 96, or, in lieu of such refiling, Del Norte Gas Co. may file a notice of adoption of said presently filed rates, rules and regulations. No increase in the present rates shall be made unless authorized by the Commission.

6. Del Norte Gas Co. shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

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

Dated at San Francisco, California, this 11<sup>th</sup> day of March, 1958.

  
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President  
  
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Commissioners