

ORIGINAL

Decision No. 58797

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of

SOUTHWEST GAS CORPORATION AND BIG BEAR LAKE GAS COMPANY for authority to carry out an agreement for the purchase and sale of assets and transfer a certificate of public convenience and necessity, and for authority for Southwest Gas Corporation to issue securities in consideration therefor.

Application No. 41094

J. L. Sanders, for Southwest Gas Corporation; William A. Betterley, for Big Bear Lake Gas Company; John F. Tolton, for Algas Fuel Service, Inc., protestant; John R. Gillanders and Richard R. Entwistle, for the staff of the Commission.

O P I N I O N

In this application the Commission is asked to make an order (1) authorizing Big Bear Lake Gas Company to transfer to Southwest Gas Corporation its certificate of public convenience and necessity and its properties and assets and (2) authorizing Southwest Gas Corporation to issue its promissory note in the principal amount of \$43,000.

The application was filed on April 30, 1959. After notice, a public hearing was held before Examiner Coleman in Los Angeles on June 26, 1959, at which time the matter was taken under submission.

Big Bear Lake Gas Company was organized under the laws of the State of California on or about July 3, 1939. On January 28, 1941, by Decision No. 33839, in Application No. 23619, it was granted a certificate of public convenience and necessity (1) authorizing it to exercise the rights and privileges specified in Ordinance No. 485, passed by the Board of Supervisors of the County of San Bernardino on June 10, 1940, and (2) authorizing it to construct, operate and maintain a liquefied petroleum gas plant and appurtenances in the territory known as Big Bear Lake. Information filed with the Commission shows that the company undertook the construction of a system and now is, and for many years has been, engaged in distributing liquefied petroleum gas in a portion of its service area.

The following tabulation, prepared from the company's filed reports, indicates the recorded results of operations during the last three years and the extent of its business and investment:

	<u>1956</u>	<u>1957</u>	<u>1958</u>
Operating revenues -			
Liquefied petroleum sales	\$31,503	\$34,532	\$34,776
Other operating revenues	(78)	(8)	-
Total	<u>\$31,425</u>	<u>\$34,524</u>	<u>\$34,776</u>
Operating expenses -			
Liquefied petroleum gas	\$14,004	\$16,172	\$17,534
Operation and maintenance	329	4,107	4,198
Customers' accounting	200	228	261
Salaries and expenses, general officers and general office employees	14,727	13,677	12,378
Insurance, injuries, damages	1,174	1,451	953
Miscellaneous	1,890	1,820	2,471
Depreciation	1,080	829	770
Taxes	1,483	1,540	1,461
Total	<u>34,887</u>	<u>39,824</u>	<u>40,026</u>
Net utility income	<u>(3,462)</u>	<u>(5,300)</u>	<u>(5,250)</u>
Other income (principally appliance sales)	1,255	2,843	1,550
Gross income	<u>\$(2,207)</u>	<u>\$(2,457)</u>	<u>\$(3,700)</u>
Plant, Dec. 31 -			
Total cost	\$27,881	\$24,898	\$24,898
Depreciation reserve	10,162	8,804	9,575
Net plant	<u>\$17,719</u>	<u>\$16,094</u>	<u>\$15,323</u>
Customers, Dec. 31 -			
Domestic	31	32	36
Commercial	75	81	77
Total	<u>106</u>	<u>113</u>	<u>113</u>

Big Bear Lake Gas Company now desires to discontinue its public utility operations and has made arrangements to sell its certificate of public convenience and necessity and its operative properties and assets to Southwest Gas Corporation, under and pursuant to the terms of an agreement of sale providing for a price of \$53,000, of which \$10,000 will be paid in cash and \$43,000 will be represented by an unsecured 6%, six-month note, renewable at the option of the buyer for additional six-months periods in principal amounts as follows: at October 31, 1959, \$43,000; at April 30, 1960, \$33,000; at October 31, 1960, \$23,000; at April 30, 1961, \$13,000; provided that buyer may pay off all or any part of the balance at any time without penalty.

According to the record, the certificated area of Big Bear Lake Gas Company covers 45 square miles. The company's president testified that the present gas system is limited to a few square blocks in the village of Big Bear Lake; that the company had not engaged in any definite program to take on any new customers or extend its lines; and that, with the area now commencing to grow, he felt Southwest Gas Corporation was better qualified and possessed greater financial resources to take over the expected expansion than his company. The reports of Big Bear Lake Gas Company, as indicated in the tabulation appearing earlier in this decision, show that there has been little increase in the number of customers served or in the gross revenues and in the investment in plant for a number of years.

Southwest Gas Corporation, upon acquiring the properties, proposes to adopt the rates of Big Bear Lake Gas Company and to continue the operations, for the time being, as a distributor of liquefied petroleum gas, but to extend the lines to reach new customers. At a later date, possibly within two years, it intends to bring natural gas into the area and it estimates it may serve approximately 3,800 customers at the end of the second year under natural gas operations. In the meantime, it estimates it will be able to effect economies in operation and to break even during the period when liquefied petroleum gas is being served.

The \$53,000 to be paid by Southwest Gas Corporation represents a price arrived at by negotiation and, according to the testimony, reflects the fair market value of the properties. The buyer, however, is not seeking to capitalize the purchase price but proposes to record on its books the estimated original costs of the properties and the estimated reserve requirement, with the excess of the purchase price over the net plant figures being set up in the acquisition adjustment account. The proposed figures are as follows:

Gas plant accounts	\$34,040
Less - depreciation reserve	<u>14,614</u>
Net plant accounts	19,426
Acquisition adjustment account	<u>33,574</u>
Total	<u>\$53,000</u>

The company proposes, and seeks authorization, to amortize the \$33,574 by charges to surplus over a five-year period after it has converted the operations to natural gas.

At the hearing John F. Tolton, representing Algas Fuel Service, Inc., protested the granting of the application. Mr. Tolton asserted that in 1949 Big Bear Lake Gas Company entered into an agreement with Algas Fuel Service, Inc., whereby it covenanted, among other things, to give Algas Fuel Service, Inc., an option, expiring August 1, 1959, to buy the properties of Big Bear Lake Gas Company in the event it should decide to sell them, and that Algas Fuel Service, Inc., had not been advised by Big Bear Lake Gas Company of the proposed sale to Southwest Gas Corporation.

We cannot, of course, adjudicate the rights of the parties to this agreement, such an action being outside the scope of our jurisdiction. So far as the matters which are presented to us in this proceeding are concerned, it does not appear that the transfer, under the terms proposed, will place a burden on the existing customers of Southwest Gas Corporation. On the other hand, it is clear that Southwest Gas Corporation is interested in the potential growth of the area and that it intends to enlarge and improve the public utility gas service. Under these circumstances, we are of the opinion, and so find, that the proposed transfer will not be adverse to the public interest and we will enter our order granting the application. Such order, however, is not to be construed as a finding of the value of the properties of Big Bear Lake Gas Company nor as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

Under the provisions of the uniform system of accounts prescribed for gas corporations, Southwest Gas Corporation is required, within six months after acquisition of the properties under the authorization herein granted, to file with the Commission its proposed journal entries to distribute the purchase price to utility plant and other accounts. At that time, we will give consideration to the amount to be charged to the acquisition adjustment account and to the company's request to clear the account.

O R D E R

A public hearing having been held in the above-entitled matter and the Commission being of the opinion that the application should be granted, that the money, property or labor to be procured or paid for by the issue of the note herein authorized is reasonably required for the purpose specified herein, and that such purpose, except as otherwise may be authorized, is not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Big Bear Lake Gas Company may transfer its certificate of public convenience and necessity and its operative properties and assets to Southwest Gas Corporation, on or before December 31, 1959, under the terms and conditions set forth in this application.
2. Southwest Gas Corporation, in part payment for said certificate of public convenience and necessity, properties and assets, may issue its 6%, six-month promissory note in the principal amount of not to exceed \$43,000 and may renew said note for the unpaid balances thereon, from time to time, in the manner set forth in the Agreement for Purchase and Sale filed in this proceeding as Exhibit D.
3. The rates, rules and regulations of Big Bear Lake Gas Company now on file with the Commission shall be refiled within 30 days after the date of transfer under the name of

Southwest Gas Corporation, in accordance with the procedure prescribed by General Order No. 96, or, in lieu of such refiling, Southwest Gas Corporation 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.

4. Southwest Gas Corporation 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.

5. The authority herein granted to issue a note will become effective when Southwest Gas Corporation has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$43. In all other respects, the authorization will become effective twenty days after the date hereof.

Dated at San Francisco, California, this 28th day of July, 1959.

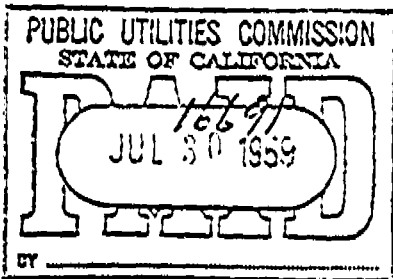
[Handwritten Signature]

President

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Commissioners



Peter E. Mitchell
Commissioners C. Lyn Fox, being necessarily absent, did not participate in the disposition of this proceeding.