

Decision No. 78348

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of
CALIFORNIA-PACIFIC UTILITIES
COMPANY and SOUTH TAHOE GAS CO.
for an order authorizing
(i) South Tahoe Gas Co. to transfer
its business and assets and related
operating rights to California-
Pacific Utilities Company and
(ii) California-Pacific Utilities
Company to issue its securities,
to assume the liabilities of
South Tahoe Gas Co. and to
encumber properties.

Application No. 52415
Filed January 21, 1971

O P I N I O N

California-Pacific Utilities Company and South Tahoe Gas Co. seek an order of the Commission authorizing the latter to transfer its public utility business and assets, including its operating rights, to California-Pacific Utilities Company, and authorizing the former (1) to assume liabilities of South Tahoe Gas Co.; (2) to issue \$764,000 principal amount of bonds; (3) to execute and deliver a supplemental indenture; (4) to issue 43,886 Cumulative Convertible Preferred shares, \$20 par value; and (5) to issue common shares upon conversion of the Convertible Preferred shares.

California-Pacific Utilities Company is a California corporation owning and operating public utility electric, gas, water and telephone systems in California and Nevada; electric,

gas and telephone systems in Oregon; and electric systems in Arizona and Utah. South Tahoe Gas Co. is a California corporation owning and operating a public utility gas distribution system in South Lake Tahoe and adjacent territory in El Dorado County.

South Tahoe Gas Co. proposes to transfer its business and substantially all of its assets to California-Pacific Utilities Company in exchange for 43,886 of the latter's 8% Cumulative Convertible Preferred shares, \$20 par value, and the assumption of debts and liabilities of the former, all pursuant to a Plan and Agreement of Reorganization, a copy of which is attached to the application as Exhibit C. According to the application, the number of preferred shares which the transferee would issue as a part of the consideration was determined by arm's length negotiations, and the aggregate par value of such shares is approximately equal to the stockholders' equity of the transferor. Said Cumulative Convertible Preferred shares would be convertible after January 1, 1974 into common shares of the transferee on an initial conversion basis of 1-1/4 common shares for each Convertible Preferred share surrendered for conversion.

Included among the debts and liabilities to be assumed are the outstanding balances of first mortgage notes held by Pacific Mutual Life Insurance Company in the amount of approximately \$764,000. California-Pacific Utilities Company proposes to issue a like amount of its First Mortgage Bonds, Series Q, 6-1/8%, due December 31, 1985, to such holder in exchange for the outstanding first mortgage notes. Said bonds would be issued pursuant to a proposed Eighteenth Supplemental Indenture, and the existing mortgage securing said notes would be extinguished.

Capitalization ratios of California-Pacific Utilities Company at September 30, 1970, and as adjusted to give effect to the issuance of the \$1,000,000 Sinking Fund Debentures and \$2,000,000 aggregate par value of Cumulative Preferred Stock authorized by Decision No. 78163, dated January 13, 1971, in Application No. 52349, and to the bond and preferred stock issues proposed in this proceeding, are summarized from Exhibit B, attached to the application, as follows:

	<u>Sept. 30, 1970</u>	<u>Pro Forma</u>
Long-term debt	55.2%	53.8%
Preferred stock	2.7	7.4
Common stock equity	<u>42.1</u>	<u>38.8</u>
Total	<u>100.0%</u>	<u>100.0%</u>

According to the application, the transferee believes that operating economies can be achieved by means of the proposed acquisition, inasmuch as it already has substantial experience in the type of public utility service involved in this proceeding. In addition, future growth of the gas system proposed to be acquired could be more readily financed by California-Pacific Utilities Company because of its size and the marketability of its securities.

After consideration the Commission finds that:

1. The proposed transactions and documents would not be adverse to the public interest.
2. The proposed stock and bond issues are for proper purposes.
3. The money, property or labor to be procured or paid for by the issues of the stock and bonds herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary.

In issuing our order herein, we place California-Pacific Utilities Company and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return it should be allowed to earn on its investment in plant, and that the authorization herein granted is not to be construed as a finding of the value of the company's stock or properties, nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. California-Pacific Utilities Company and South Tahoe Gas Co. may enter into and carry out the terms of a Plan and Agreement of Reorganization, which document shall be in the same form, or in substantially the same form, as Exhibit C, attached to the application.
2. South Tahoe Gas Co. may transfer all of its public utility business and assets, including its operating rights, to California-Pacific Utilities Company and, upon consummation of the transfer, the former shall be relieved of all further public utility obligations in connection with the operations of the public utility business to be transferred.

3. California-Pacific Utilities Company may acquire the assets and related operating rights and may assume the liabilities of South Tahoe Gas Co., as set forth in the application.

4. California-Pacific Utilities Company, on or after the effective date hereof and on or before June 30, 1971, for the purpose set forth in the application, may issue not exceeding \$764,000 principal amount of its First Mortgage Bonds, Series Q, 6-1/8%, due December 31, 1985, and may execute and deliver an Eighteenth Supplemental Indenture in the same form, or in substantially the same form, as Exhibit D attached to the application.

5. California-Pacific Utilities Company, for the purpose specified in the application, may issue not exceeding 43,886 of its Cumulative Convertible Preferred shares, \$20 par value and, from time to time after January 1, 1974, may issue such number of its common shares as may be required to be issued upon the conversion of said Cumulative Convertible Preferred shares, according to the terms and conditions set forth in this proceeding.

6. Within five days after consummation of the transfer herein authorized, California-Pacific Utilities Company shall file with the Commission, by advice letter, a Notice of Adoption of the presently filed tariff schedules of South Tahoe Gas Co., in accordance with Section III.C. of General Order No. 96-A.

7. The tariff schedules of South Tahoe Gas Co., now on file with this Commission, shall be refiled within six months after the effective date of the transfer herein authorized under

the name of California-Pacific Utilities Company, in accordance with the requirements of General Order No. 96-A, except that California-Pacific Utilities Company may withdraw such rules, conditions and standard forms of South Tahoe Gas Co. as are substantially identical with those of California-Pacific Utilities Company, and the withdrawal of which will not result in increases in rates nor more restrictive conditions than the presently filed tariffs of South Tahoe Gas Co.

8. Within thirty days after consummation of the transfer herein authorized, California-Pacific Utilities Company shall notify the Commission, in writing, of that fact.

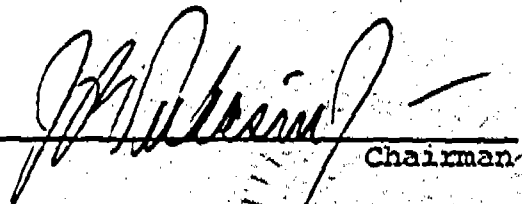
9. California-Pacific Utilities Company shall file with the Commission a report, or reports, pertaining to the bonds and preferred stock, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

10. Within sixty days after consummation of said transfer, California-Pacific Utilities Company shall file with the Commission a copy of each journal entry used to record the transfer on its books of account.

11. On or before the end of the third month after the consummation of the transfer herein authorized, California-Pacific Utilities Company shall cause to be filed with the Commission, in such form as it may prescribe, an annual report, or reports, related to the operations of South Tahoe Gas Co. for the period commencing with the first day of the current year to and including the effective date of the transfer, in addition to the annual report required to be filed with the Commission for the year 1970.

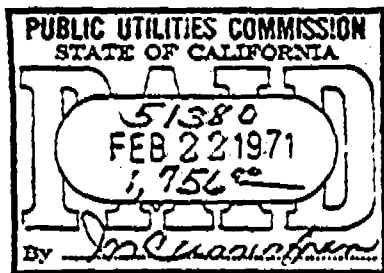
12. This order shall become effective when California-Pacific Utilities Company has paid the fee prescribed by Section 1904.1 of the Public Utilities Code, which fee is \$1,756.

Dated at San Francisco, California, this 22nd
day of FEBRUARY, 1971.


Chairman




Commissioners



Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.