

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of
Missouri Public Service Company and of
Missouri Gas & Electric Service Company (1)
for Authorization of a Merger, whereby
Missouri Public Service Company will become
the Surviving Corporation and will acquire
all Properties and Assets of Missouri Gas &
Electric Service Company, and (2) of Missouri
Public Service Company for Authority to Own
and Operate the Properties of Missouri Gas
& Electric Service Company, to Issue its Series
F, 3-1/8% First Mortgage Bonds in the Principal
Amount of \$2,000,000 and Execute a Supplemental
Indenture of Mortgage Securing such Bonds, to
Issue 527,865 Shares of its Common Stock, and to
Assume the Debt, Liabilities, and Obligations
of Missouri Gas & Electric Service Company.

Case No. 12,260

REPORT AND ORDER

This proceeding is before the Commission upon a joint application, filed November 7, 1951, by Missouri Public Service Company (herein sometimes referred to as "Public Service"), and by Missouri Gas & Electric Service Company (herein sometimes referred to as "Gas & Electric"), for authorization of a merger, whereby Public Service will acquire all properties and assets of Gas & Electric and Public Service will own and operate such properties and assets.

In connection with the merger transaction, Public Service has also applied for authority to issue and deliver 527,865 shares of common stock, without par value, and \$2,000,000 principal amount of Series F 3-1/8% First Mortgage Bonds, and to execute and deliver a Supplemental Indenture securing the aforesaid Bonds.

A hearing on the application was held at Jefferson City, Missouri, on November 30, 1951, at which all interested parties were given opportunity to be heard and the case was submitted on

the oral and exhibit testimony produced by the applicants.

Both applicants are Missouri corporations, the location of the principal office of Public Service being at Warrensburg, and that of Gas & Electric at Lexington. Public Service supplies electric service in 97 communities, gas service in 6 communities and water service in 3 communities. Gas & Electric supplies electric service in 40 communities, gas service in 7 communities, water service in 1 community, and operates ice plant in 2 communities. The two service areas of Public Service are located in all or a portion of Barton, Bates, Benton, Cass, Cedar, Dade, Henry, Jackson, Johnson, Lafayette, Pettis, St. Clair and Vernon Counties in Central Western Missouri, and in Daviess, Grundy, Harrison, Livingston and Mercer Counties in Northern Missouri. The service area of Gas & Electric is located between the two service areas of Public Service in Buchanan, Carroll, Clay, Clinton, Lafayette, Platte, Ray and Saline Counties. The two companies render service to approximately 58,000 electric consumers, 16,500 gas consumers, and 4,800 water consumers. The businesses of the two companies for the past eight years have been conducted by common management, R. J. Green being the principal executive, president, a director, and a substantial holder of the common stock of each of the companies.

Applicants contend that the merger is desirable for the following reasons: The territories served by the merging corporations are adjacent to each other. They are of the same general character and the nature of the public utility services performed in the respective territories is substantially identical. Merging the two will permit more efficient and economical use of equipment and personnel, facilitate interconnections assuring more reliable service, provide a larger and better vehicle for financing capital requirements, and in these various ways produce benefits for both the security holders and the consumers served by the companies.

The property accounts of the applicants as shown by utility plant accounts in the financial statements submitted by the applicants as at September 30, 1951, follows:

	<u>Public Service</u>	<u>Gas & Electric</u>
<u>Utility Plant</u>		
Electric	\$ 18,320,925.01	\$ 3,483,342.00
Gas	1,972,615.86	1,124,933.40
Water	1,493,898.08	8,811.00
Ice		190,835.24
General		91,356.74
	<u>\$ 21,787,439.95</u>	<u>\$ 4,899,418.38</u>
Intangibles	47,845.18	237,977.40
Total original cost	\$ 21,835,285.13	\$ 5,137,395.78
Excess of cost over original cost	400,792.81	
Total utility plant	\$ 22,236,077.94	\$ 5,137,395.78
Less: Reserves for depreciation and amortization	<u>4,734,742.89</u>	<u>1,342,604.05</u>
	\$ 17,501,335.05	\$ 3,794,791.73

The utility plant account of Public Service is stated at original cost as heretofore approved by this Commission and includes cost in excess of original cost in the amount of \$400,792.81, which amount is in process of amortization.

The tangible property of Gas & Electric is stated at original cost based primarily upon analyses of the Company's records by independent engineers, plus intangibles including \$223,000 going concern value, as of March 31, 1935, also determined by independent engineers. On May 1, 1949, this Company commenced an original cost study, which is not yet completed, and the Company's representatives state that it is intended to record such original cost determination when approved by this Commission. No disposition or adjustment of the account reflecting the \$223,000 going concern value item is contemplated pending completion of the original cost study, which such representatives contend will show a greater amount of original cost of tangible property than that now carried on the books.

The Plan of Merger (Exhibit A) provides in detail the manner

and basis of converting the shares of stock of each of the applicants into shares of the surviving corporation. Briefly stated, such conversion is accomplished by issuing to the holders of each of the 133,705 shares of common stock of Public Service 3 shares of the common stock of the surviving corporation, and by issuing to the holders of each of the 25,350 shares of common stock of Gas & Electric 5 shares of the common stock of Public Service. The preferred stock of Public Service will remain outstanding.

The First Mortgage Bonds of Gas & Electric will be retired and a like principal amount of First Mortgage, Series F, 3-1/8%, Bonds of Public Service, dated January 1, 1962, and due January 1, 1977, issued in exchange therefor. Applicants' witnesses testified that commitments had been obtained for such exchange from the holders of all outstanding Bonds of Gas & Electric.

In connection with the merger, it is proposed to write off certain items of unamortized excess cost of property over the original cost thereof and unamortized balance of debt expense and call premiums applicable to refunded bond issues and capital stock expense.

The amount of \$400,792.81 representing cost in excess of original cost of utility plant account of Public Service in process of amortization, will be written off to the reserve for amortization of cost in excess of original cost provided therefor (\$195,504.21 at September 30, 1951) and the balance charged against earned surplus. The unamortized balance of debt expense and call premiums applicable to refunded bond issues (\$272,870.83), capital stock expense (\$11,473.64) will be written off to capital surplus (\$3,976.21) and earned surplus. Earned surplus of the surviving corporation, on pro forma basis as at September 30, 1951, after the aforesaid adjustments will be \$3,520,604.56, total reductions of the combined earned surpluses of the two companies of \$632,806.66

and elimination of the capital surplus of \$3,976.21 of Public Service, on such pro forma basis, resulting from such adjustments. It appears that such adjustments are desirable steps in furtherance of the establishment of recorded accounts and a balance sheet reflecting actual original cost of capital assets. However, such establishment will not be complete until settlement and approval of the original cost of capital assets to be acquired by the surviving corporation from Gas & Electric.

The capitalization and funded debt of the surviving corporation, on the pro forma basis of September 30, 1951, is shown as follows:

Capital Stock and Surplus

Common Stock	\$ 4,073,041.81
Preferred Stock	1,950,000.00
Earned Surplus	<u>3,628,604.53</u>
Total	\$ 9,651,646.34

Long Term Debt

First Mortgage Bonds	\$11,190,000.00
Serial Debentures, 1951-1970	<u>1,117,000.00</u>
Total	\$12,307,000.00

As at September 30, 1951, there was available to the surviving corporation, on a pro forma basis, an excess of Current Assets over Current Liabilities of \$1,061,706.17.

The ratios of 44% for capital stock capitalization and surplus and of 56% for long term debt, after the merger, is indicated. Prior to merger, the debt ratio of Public Service is 56% and of Gas & Electric 50%.

It does not appear that an excessive debt ratio will result from the merger, and the amount of net current assets available to the surviving corporation should be sufficient to provide an adequate working capital and also funds for minor capital expenditures.

The cost of the merger transaction, including stock issue taxes, capitalization fees, stamp taxes on bonds, printing, recording, legal fees and accounting charges, stock listing charges, transfer agents' and registrars' fees, and other expense, was estimated by witnesses for applicants at \$53,150.00. It is proposed to write off such costs by charges to earned surplus. Applicants' witnesses testified that no commissions, brokerage charges, or other similar charges will be incurred in connection with the merger transaction or the proposed issuance of securities to make same effective.

In connection with the merger of these companies, if made effective, it appears that a question will arise as to the future annual provision for reserves for depreciation of utility plant. Effective January 1, 1951, pursuant to an order of the Commission dated July 3, 1951, in Case No. 10,652, provisions for depreciation on electric property of Public Service were computed on a straight line basis by applying to the primary account balances specific rates as determined by said order. Depreciation on property, other than electric, has been provided annually at the following rates: gas property, \$17,000 plus 2.5% of net additions since December 1, 1935; water property, \$13,000, plus 2% of net additions since December 1, 1935. Gas & Electric has made provision for depreciation on a straight line basis by applying the following composite rates to the depreciable property balances at the beginning of the period: Electric 2.5%; gas 1.5%; water 1.5%. Upon making the merger effective, the surviving corporation should follow a uniform procedure in making provision for depreciation, and it will be required to adopt the same method and rates as presently practiced by Public Service as to electric, gas and water properties.

No difficulty as to continuation of presently effective rates for utility service to consumers appears to be imposed by reason of

the merger. Pursuant to provisions of the General and Business Corporation Law, a surviving corporation resulting from a merger shall be subject to all the duties and liabilities of each of the merging corporations. Sec. 351.450 Mo.R.S. Public Service will be required to maintain utility service in all municipalities, communities, and areas formerly served by Gas & Electric at the scheduled rates effective therefor, until changes are authorized pursuant to law.

Having examined the Plan of Merger and the Evidence, the Commission finds that the transactions contemplated by such a Plan are reasonably required for the development and improvement of utility service in the areas of the state supplied by the applicants. The facts and circumstances heretofore recited, which have been supported by the evidence submitted, induce the conclusion that the effectuation of the merger will not be detrimental to the public interest, is not unfair to consumers or investors, is not contrary to the law or public policy of the State, and will not hamper or impede the imposition of regulatory powers by the Commission. The issuance of the stock and bonds for exchange, as contemplated by the Plan, will not increase stock or bond capitalization. Accordingly, an order will issue granting the authorizations applied for.

It is, therefore,

ORDERED: 1. That, upon obtaining approval required by law from the holders of stock of the constituent companies and upon due compliance with provisions of the General and Business Corporation Law of Missouri relating to the effectuation of mergers and the filing of evidence thereof in this proceeding, Missouri Gas & Electric Service Company be and hereby is authorized to merge with Missouri Public Service Company, pursuant to the Plan of Merger dated November 1, 1951, as amended, made by the afore-

mentioned corporations; and Missouri Public Service Company as the surviving corporation, be and hereby is granted a certificate of public convenience and necessity to own, maintain and operate all properties and assets, and to acquire, hold and exercise all contracts, franchises, permits and rights now held by Missouri Gas & Electric Service Company and by Missouri Public Service Company; including, without limitation, all rights to construct, own and maintain electric utility facilities in the areas in the State of Missouri described and designated in the orders heretofore issued to said companies by this Commission.

ORDERED: 2. That Missouri Public Service Company be and hereby is authorized to assume all debts, liabilities and obligations of Missouri Gas & Electric Service Company, except such debts and obligations as are retired and discharged pursuant to the conditions of the Plan of Merger.

ORDERED: 3. That Missouri Public Service Company be and hereby is authorized to issue and deliver 527,865 shares of its common stock, without par value, and to exchange 126,790 shares thereof for 25,350 shares of common stock of Missouri Gas & Electric Service Company and to exchange 401,115 shares thereof for 133,705 shares of common stock of Missouri Public Service Company, or to issue and exchange any lesser number of shares as may be required to fulfill the terms and conditions of the Plan of Merger.

ORDERED: 4. That Missouri Public Service Company be and hereby is authorized to issue its First Mortgage Bonds, Series F, dated January 1, 1982, due January 1, 1977, in the principal amount of \$2,000,000, and to deliver such Bonds to the holders of the First Mortgage Bonds, Series A, B, C and D, of Missouri Gas & Electric Service Company, in the principal amount of \$2,000,000, presently outstanding, upon the surrender of such outstanding

Bonds for retirement.

ORDERED: 5. That Missouri Public Service Company be and hereby is authorized to execute and deliver a Supplemental Indenture providing for and securing the aforesaid Series F Bonds, in the form, or substantially in the form, of the Supplemental Indenture filed in this case, to Commerce Trust Company, Kansas City, Missouri, as Trustee, under the Indenture of Mortgage dated January 1, 1946, and the Supplemental Indentures thereto.

ORDERED: 6. That Missouri Public Service Company be and hereby is authorized and directed to make and record adjustments of its property accounts reflecting the elimination therefrom of unamortized excess of cost over original cost and the unamortized call premiums on refunded debt and expense of issuance of stocks and bonds as provided for and set forth in this proceeding, and to file, for approval by the Commission, within 60 days from date of this order its accounting entries showing the manner and form of such adjustments.

ORDERED: 7. That Missouri Public Service Company be and hereby is authorized and directed to adopt and make effective as to all utility properties acquired by reason of the merger the same provisions, methods and rates for creation of depreciation reserves as required by Order of this Commission dated July 3, 1951, in Case No. 10,852.

ORDERED: 8. That nothing herein shall be considered as a finding by the Commission of the value for rate making purposes of the properties herein involved, nor as an acquiescence in the value placed upon said properties by the parties in this proceeding.

ORDERED: 9. That this order shall take effect on this date and the Secretary of the Commission shall forthwith transmit to each interested party a certified copy of this order.

BY THE COMMISSION


MARVIN P. MOORE,
SECRETARY

Osburn, Chas., Williams, Henson,
McClintock and Gery, CS., Concur

Dated at Jefferson City, Missouri,
this 12th day of December, 1951.

STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office, and I do hereby certify the same to be a correct transcript therefrom and of the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City, this 12th day of December, 1951.


SECRETARY