

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of  
PAUL M. DOYLE  
to sell and TRUCKEE ELECTRIC LIGHT  
AND POWER COMPANY, a corporation, to  
purchase a power plant, and to issue  
stock therefor.

Application Number 9493

ORIGINAL

Devlin and Brookman,  
by Douglas Brookman, for Applicants.

Prowett and Chamberlain,  
by T. L. Chamberlain, for citizens  
of Truckee, Protestants.

WHITTLESEY, Commissioner:

OPINION

In this application, as amended at the hearing, the Railroad Commission is asked to make an order:

1. Authorizing Paul M. Doyle to sell and transfer a power plant consisting of certain real property, a dam, water wheels and certain water rights, to Truckee Electric Light and Power Company, a corporation, and
2. Authorizing Truckee Electric Light and Power Company to increase its capital stock and to issue to Paul M. Doyle in payment for his power plant, \$25,000.00 of stock, or such other amount of stock as at par value would equal the estimated reasonable value of the power plant, and
3. Authorizing Truckee Electric Light and Power Company to issue \$9,000.00 of stock to reimburse its treasury on account of surplus earnings invested in properties and to distribute such stock to its present stockholders and to issue and sell \$3,000.00 of stock at par for cash to pay for meters.

It appears that Truckee Electric Light and Power Company was organized on or about October 1, 1888, with an authorized capital stock

of \$10,000.00 divided into 1,000 shares of the par value of \$10.00 each, all shares being common, and that of this amount 900 shares of the aggregate par value of \$9,000.00 are outstanding. The record shows that the company now proposes to increase its authorized capital stock to \$60,000.00 divided into 6,000 shares of the par value of \$10.00 each, all common.

Truckee Electric Light and Power Company is engaged in supplying electric energy for commercial and domestic purposes in Truckee, serving about 200 consumers. For the year ending December 31, 1921 it reported gross revenues of \$8,639.13, operating expenses of \$7,298.72 and net revenues for the year of \$1,340.41. For the year ending December 31, 1922, there were reported gross revenues of \$8,791.44, operating expenses of \$6,592.21, rent deductions of \$2,400.00 and loss for the year of \$200.77. The company reports assets and liabilities as of December 31, 1922, as follows :-

ASSETS

Fixed capital . . . . .	\$22,268.23	
Cash . . . . .	942.33	
Materials & supplies . . . . .	1,000.00	
Total Assets . . . . .		\$24,210.56

LIABILITIES

Capital stock . . . . .	\$ 9,000.00	
Dividends declared . . . . .	450.00	
Corporate surplus unappropriated . . . . .	14,760.56	
Total Liabilities . . . . .		\$24,210.56

The record shows that the company does not own the generating plant from which it obtains its supply of electricity, but leases it from Paul M. Doyle, paying an annual rental of \$2,400.00, and in addition paying all maintenance and repair charges. It now being thought advantageous for the company to own the power plant, Paul M. Doyle has agreed to sell the property to the corporation for \$25,000.00 of stock, or such other amount of stock as the Commission may determine reasonable.

For the purpose of determining a reasonable price at which

these properties may be transferred, Charles Grunsky, one of the Commission's Assistant Engineers, made an appraisal of the properties and introduced, as Commission's Exhibit Number 1, a valuation in which he estimates the historical reproduction cost of such properties as \$10,775.00 and the historical reproduction cost less depreciation as \$8,836.00 exclusive of any allowance for lands and water rights. Applicants urge that the Commission give consideration to present value in determining the price at which the power plant might be transferred and allege that, with the inclusion of a proper allowance for water rights, not only the present value but also the historical reproduction cost of the properties will exceed \$28,000.00. Following the hearing and giving consideration to the testimony offered and evidence introduced, Mr. Grunsky revised his figures and determined the estimated historical reproduction cost of the power plant properties to be \$12,875.00 and the estimated historical reproduction cost less depreciation to be \$9,782.00.

Truckee Electric Light and Power Company has been giving a twelve hour service only and on a flat rate basis. In Application Number 9499, which was heard at the same time as this proceeding, the company asked permission to establish meter rates for twenty-four hour service. Testimony was introduced showing that there exists an optional source of power to Truckee Electric Light and Power Company, namely the high voltage line of Truckee River Power Company, which passes near Truckee. The advisability of utilizing such optional source of power and the resultant effect upon the value of the Doyle properties will depend upon whether the present power plant can adequately supply the demands placed upon it when continuous service under metered rates is undertaken. Under these conditions I believe that the request of Paul M. Doyle to sell and transfer his power plant and of Truckee Electric Light and Power Company to issue stock in payment therefor, should be temporarily held in abeyance until the Commission has had time to observe the results of applicant's operations under

continuous service conditions and it will therefore be unnecessary to make a finding of value of the power plant at this time.

Coming now to the request of Truckee Electric Light and Power Company to issue and sell \$3,000.00 of stock and to issue \$9,000.00 of stock in reimbursement of its treasury, the testimony herein shows that the \$3,000.00 of stock will be sold at par for cash and the proceeds used to purchase the meters it will be necessary to install under the order of the Commission in Application Number 9499, and that the \$9,000.00 of stock will be distributed to the present stockholders as a stock dividend.

The Commission cannot of course authorize the issue of stock directly for the purpose of paying a dividend, but it can authorize the issue of stock for the purpose of enabling a utility to reimburse its treasury as provided in Section 52 of the Public Utilities Act. After such reimbursement such stock may be distributed to the stockholders. An order authorizing a company to issue stock to reimburse its treasury requires a determination of the sources from which the company has obtained the money expended. As of December 31, 1922 the company reported corporate surplus unappropriated of \$14,760.56, which, according to the testimony of the company's president, represents net surplus earnings which have been used to pay for properties. An analysis of the company's books of account indicates that while the figure representing corporate surplus unappropriated is substantially correct, it was built up in part because the company has never made any allowance in its operating expenses for depreciation. In my opinion the sum of \$3,000.00 should appear as a credit balance in a reserve for accrued depreciation account as of December 31, 1923. I therefore believe that this amount should be transferred from the corporate surplus account and set up in a reserve for accrued depreciation account, thus reducing the surplus available for distribution to \$11,760.56, an amount which is, however, in excess of the amount of stock proposed to be issued against such surplus.

The historical reproduction cost of the properties plus materials and supplies and working cash capital, but exclusive of meters to be purchased, as determined in the concurrent proceeding, Application Number 9499, is \$18,165.00. This, less accrued depreciation of \$3,000.00, leaves a total of \$15,165.00. I do not believe the total of stock outstanding should exceed this amount, although the company's books show an apparent greater surplus. The stock issue to reimburse the treasury should be limited to \$6,000.00.

In my opinion the company may amend its Articles of Incorporation without permission from the Commission. It, however, cannot issue any stock without first having obtained from the Commission an order authorizing the issue of stock.

I herewith submit the following form of order :-

#### ORDER

Application having been made to the Railroad Commission for an order authorizing P. M. Doyle to transfer property and Truckee Electric Light and Power Company to issue stock, a public hearing having been held and the Railroad Commission being of the opinion that the request of P. M. Doyle to transfer properties should be temporarily held in abeyance and that the request of Truckee Electric Light and Power Company to issue stock should be granted only as herein provided,

IT IS HEREBY ORDERED that TRUCKEE ELECTRIC LIGHT AND POWER COMPANY be, and it is hereby, authorized to issue \$9,000.00 of its capital stock.

The authority herein granted is subject to the following conditions :-

1. Truckee Electric Light and Power Company may sell \$3,000.00 of the stock herein authorized at par for cash and use the proceeds for the purpose of acquiring and installing meters.

2. Truckee Electric Light and Power Company may issue \$6000.00 of the stock herein authorized, to reimburse its treasury on account of surplus earnings invested in properties, ~~and to be used for the purpose of~~  
~~reimbursement of the same~~
3. Truckee Electric Light and Power Company shall keep such record of the issue, sale and delivery of the stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th. day of each month a verified report as required by the Railroad Commission's General Order Number 24, which order in so far as applicable, is made a part of this order.
4. The authority herein granted will become effective upon the date of the transfer by the Truckee Electric Light and Power Company of the sum of \$3,000.00 from its surplus accounts to its reserve for accrued depreciation account and upon the filing by Truckee Electric Light and Power Company with the Commission of a certified copy of its Articles of Incorporation amended as indicated in the foregoing opinion. Such authority will expire on December 31, 1924.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

DATED at San Francisco, California, this 28<sup>th</sup> day of January, 1924.

C. Seavey  
H. B. ...  
Dwight ...  
J. J. ...  
Commissioners.