

Decision No. 14393

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of
NESTLE'S FOOD COMPANY, INC. OF
CALIFORNIA, a California corporation,
and COAST VALLEYS GAS AND ELECTRIC
COMPANY, a California corporation,
for an order authorizing the sale by
Nestle's Food Company, Inc. of Califor-
nia and the purchase by Coast Valleys
Gas and Electric Company of certain
electric properties.

ORIGINAL

Application Number 10471

Chickering & Gregory, by Allen E. Chickering for
Coast Valleys Gas and Electric Company.

Goodfellow, Ellis, Moore & Orrick, by R. W. Palmer,
for Nestle's Food Company, Inc. of California and
for Alpine Evaporated Cream Company.

BY THE COMMISSION :

O P I N I O N

In this application, as originally filed, the Railroad Com-
mission was asked to make an order authorizing Nestle's Food Company,
Inc. of California, hereinafter sometimes called Nestle's Company, to
sell and transfer to Coast Valleys Gas and Electric Company, herein-
after sometimes called Coast Valleys Company, for \$27,000.00 in cash,
an electric distributing system located in the town of Gonzales,
Monterey County, such sale and transfer to be in accordance with the
terms of a contract, dated August 25, 1924, between the two companies,
a copy of which contract is filed with the application as Exhibit "E".

The application shows that Nestle's Company is engaged,
primarily, in the purchase, treatment, preservation and distribution
of milk and milk products. Incidental to its main business it
appears that the company has acquired and is operating an electric
distributing system in and around the town of Gonzales, which system,

it is reported, was constructed originally for the accomodation of those employed in the milk condensary at Gonzales, before central station service was available in the community. It appears that the electric system was installed about the year 1908 by Gonzales Electric Company, but was sold, shortly thereafter, to Alpine Evaporated Cream Company. Subsequently the system came into the possession of Nestle's Company, one of the applicants herein.

The transfer of the properties from Gonzales Electric Company to Alpine Evaporated Cream Company was made prior to March 25, 1912, the effective date of the Public Utilities Act. The transfer to Nestle's Company was made subsequent to that date, but was not authorized by this Commission. To remove any doubt of the validity of the title to the properties the application was amended at the hearing held in this matter and Alpine Evaporated Cream Company made a party thereto.

The record shows that Nestle's Company is purchasing energy from Coast Valleys Company for its own use and for distribution to its consumers, who are about two hundred in number at present. The company reports revenues and expenses from the electric system for the years ending December 31st. as follows :-

| <u>Year</u> | <u>Gross Revenues</u> | <u>Operating Expenses</u> | <u>Net Revenues</u> |
|-------------|-----------------------|---------------------------|---------------------|
| 1925 | \$ 16,803.85 | \$ 13,611.57 | \$ 3,192.28 |
| 1922 | 14,749.73 | 9,140.62 | 5,609.11 |
| 1921 | 13,914.78 | 15,149.25 | 1,334.47* |
| 1920 | 7,164.44 | 7,800.00 | 635.56* |
| 1919 | 4,696.45 | 3,509.66 | 1,186.79 |

* Loss for Year

A report on the value of the electric system was filed by James F. Rollard, Coast Valleys Company's general manager, and marked Coast Valleys Gas and Electric Company's Exhibit No. "1". In this report, Mr. Rollard estimates the reproduction cost new of the property, as of September 1, 1924, as \$29,218.00, which amount included the following elements of value :-

| | |
|--|--------------------|
| Organization | \$1,000.00 |
| Franchise rights | 300.00 |
| Going concern value | 8,000.00 |
| Physical properties and rights of way | <u>19,918.00</u> |
| Total | <u>\$29,218.00</u> |

According to the testimony of James F. Pollard the figures of \$1,000.00 and \$300.00, representing organization and franchise rights, are estimates of the amounts it is thought a system of this size would be called upon to expend for these purposes. In this connection Mr. Pollard testified that the Town of Gonzales is an unincorporated territory and that in his opinion Coast Valleys Company, under its Monterey County franchise, could serve this region without acquiring any additional franchise from the Nestle's Company. The expenditures of \$1,000.00 for organization, in our opinion, represent costs which do not accrue to the benefit of the purchasing company. The estimate of \$8,000.00 for going concern value, according to James F. Pollard's testimony is an "estimate of the value of the business as a going concern, based largely on its earning power," under Coast Valleys Company's rates.

In our opinion, not more than \$19,918.00 of the purchase price (\$27,000.00) is a proper charge to fixed capital account. Though the order herein authorizes the transfer of the properties at the price agreed upon by applicants, the Commission reserves the right to determine in subsequent proceedings how much of the purchase price may be capitalized through the issue of stock, bonds or other evidences of indebtedness, or included in a rate base.

We believe the transfer of this distributing system is for the best interests of the public. Nestle's Company is desirous of divesting itself of its obligations and responsibilities as a public utility and to concentrate its efforts on its main business of handling milk and milk products. Coast Valleys Company, upon acquiring the property, should be in a position to give more adequate service as a public utility. Moreover the rates of Coast Valleys Company are

lower than those now charged by the Nestle's Company.

ORDER

Application having been made to the Railroad Commission for an order authorizing the transfer of an electric distributing system located in the Town of Gonzales, Monterey County, a public hearing having been held before Examiner Parkhauser, and the Railroad Commission being of the opinion that the proposed transfer of the electric distributing system is in the interests of the public, and that the application should be granted as provided herein,

IT IS HEREBY ORDERED that the transfer of the electric distributing system, to which reference is made in the foregoing opinion, from Alpine Evaporated Cream Company to Nestle's Food Company, Inc. of California and from Nestle's Food Company, Inc. of California to Coast Valleys Gas and Electric Company, be and it is hereby authorized.

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

1. The transfer of the properties from Nestle's Food Company, Inc. of California to Coast Valleys Gas and Electric Company shall be in accordance with the terms of the contract, dated August 26, 1924, between the two companies, a copy of which contract is filed with the application as Exhibit "F".
2. The price at which the properties referred to herein are transferred shall not be urged before this Commission or other court or public body having jurisdiction as a measure of value of such properties for any purpose other than the transfer herein authorized.
3. Within sixty days after the transfer of the properties herein authorized Coast Valleys Gas and Electric Company shall file with the Commission a certified

copy of the deed by which such properties are conveyed and shall file also a statement showing the entry, or entries, by which it records on its books of account the purchase of such properties.

4. The authority herein granted will become effective upon the date hereof.

DATED at San Francisco, California, this 23rd day of December, 1924.

Chas. E. ...

David Martin

J. T. Whittier

Commissioners.