

Decision No. 17393.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 ALTURAS ELECTRIC POWER COMPANY
 (a corporation) and MENDOCINO ELECTRIC
 LIGHT AND POWER COMPANY (a corporation)
 for authority to sell the electric
 systems and properties of said corpora-
 tions respectively to the Peoples Cali-
 fornia Hydro-Electric Corporation
 (a corporation) and of Peoples Califor-
 nia Hydro-Electric Corporation (a cor-
 poration) for authority to buy said
 systems and properties and to issue
 shares of its capital stock of the par
 value of \$57,000.00 and its first mort-
 gage bonds of the face amount of
 \$150,000.00.

ORIGINAL

Application No. 12991

Goodfellow, Eels, Moore and Orrick,
 by T. W. Dahlquist, for applicants.

BY THE COMMISSION:

OPINION

In this application the Railroad Commission is asked
to make an order:

1. Authorizing Alturas Electric Power Company and Mendocino Electric Light and Power Company to sell their businesses and properties to Peoples California Hydro-Electric Corporation and authorizing Peoples California Hydro-Electric Corporation to buy said properties on the terms and conditions set forth in the application.

2. Authorizing Peoples California Hydro-Electric Corporation to issue and deliver \$57,000.00 par value of its common capital stock to W. B. Foshay Co. as part consideration for the trans-

fer of said properties.

3. Authorizing Peoples California Hydro-Electric Corporation to execute its first mortgage covering said properties to be acquired by it to secure a total authorized issue of \$1,000,000. principal amount of its first mortgage gold bonds.

4. Authorizing Peoples California Hydro-Electric Corporation to issue and deliver \$150,000.00 principal amount of its first mortgage fifteen year 5-1/2 percent gold bonds to W.B. Foshay Co. as part consideration of its causing said properties to be conveyed to said Peoples California Hydro-Electric Corporation.

The Mendocino Electric Light and Power Company renders electric service in the towns of Mendocino, Caspar, Little River and Albion, California, and in the intermediate rural territory. All of the above communities are situate on the Pacific Coast in Mendocino County, south of Fort Bragg. The record in this proceeding shows that Mendocino has a population of about 1200, Caspar 600, Little River 100 and Albion 600. As of April 1, 1926 the company had 489 service connections and 449 meters in service. Electric energy is purchased from the Fort Bragg Electric Company at 6600 volts at Jug Handle Creek for two cents per kilowatt hour. A three phase wood pole line transmits this energy through Caspar to Mendocino; a distance of about five miles. From Mendocino a 6600 volt, single phase line extends about six miles along the coast to Little River and Albion.

For the three years ending December 31, 1925 the operating revenues and expenses, and net income before depreciation and Federal taxes of Mendocino Electric Light and Power Company are reported as follows:-

ITEM	1923	1924	1925
Gross revenue	\$17,148.00	\$20,164.00	\$22,841.00
Operating expenses	<u>12,154.00</u>	<u>18,959.00</u>	<u>16,644.00</u>
Net operating revenue	4,994.00	1,205.00	6,197.00
Taxes	<u>656.00</u>	<u>1,305.00</u>	<u>1,512.00</u>
Net income before de- preciation, Federal taxes, etc.	<u>\$4,338.00</u>	<u>\$100.00*</u>	<u>\$4,685.00</u>

*Loss

It is explained that the high operating costs in 1924, as compared with 1923 and 1925 were caused by extraordinary maintenance expenditures during that year.

The Alturas Electric Power Company renders retail electric service in the town of Alturas, Modoc County, and also sells energy wholesale to the Surprise Valley Electric Light and Power Company, which serves the town of Cedarville, about nineteen miles east of Alturas. It is of record that the town of Alturas has a population of about 1000. The company serves a few consumers outside of the town limits. As of April 1, 1926 the company had 308 service connections and 841 meters in service. The physical property of the company on April 1, 1926 consisted of a hydroelectric generating station on Pine Creek about six miles from Alturas, a transmission line from the plant to Alturas, a step-down substation and a distribution system.

The company does not own the transmission line from the generating plant to Cedarville. The Alturas Electric Power Company in reports filed with the Railroad Commission for the three years ending December 31, 1925 reports revenues and expenses as follows:-

ITEM	1923	1924	1925
Gross revenue	\$21,196.62	\$21,770.28	\$23,021.66
Operating expenses	<u>8,721.64</u>	<u>8,700.76</u>	<u>9,977.73</u>
Net operating revenue	12,474.98	13,069.52	13,043.93
Taxes	<u>1,925.01</u>	<u>1,870.10</u>	<u>1,896.81</u>
Net income before deprecia- tion, Federal taxes, etc.	<u>\$10,549.97</u>	<u>\$11,199.42</u>	<u>\$11,147.12</u>

Appraisals of the properties of both the Mendocino Electric Light and Power Company and Alturas Electric Power Company have been submitted by applicants and by the Commission's engineering department. The appraisals submitted by applicants have been prepared by Day and Zimmerman, consulting engineers. They estimate the reproduction cost new of the properties of the Mendocino Electric Light and Power Company as of April 1, 1926 at \$33,118.00, and the reproduction cost new less depreciation at \$56,493.00, while the reproduction cost new of the properties of the Alturas Electric Power Company as of the same date is reported by them at \$177,550.00 and the reproduction cost new less depreciation at \$136,715.00. In the Commission's Exhibit No. 1 prepared by C. T. Mess, one of the Commission's assistant engineers, the reproduction cost new of the Mendocino Electric Light and Power Company as of August 1, 1926, is reported at \$46,849.00 and the reproduction cost new less depreciation of \$24,664.00. In the Commission's Exhibit No. 2, also prepared by C. T. Mess, the reproduction cost new of the properties of the Alturas Electric Power Company as of August 1, 1926 is reported at \$128,860.00, and the reproduction cost new less depreciation at \$103,425.00.

The reproduction cost new of the combined properties is reported by Day and Zimmerman at \$240,668.00, as compared with the Commission's engineers' estimate of \$175,709.00, the difference amounting to \$64,959.00. Day and Zimmerman estimate the reproduction cost less depreciation of the combined properties at \$193,208., while the Commission's engineers estimate the reproduction cost less depreciation of the combined properties at \$128,089.; a difference of \$65,119.00. It appears that in preparing their appraisals Day and Zimmerman used prices as of April 1, 1926, while the Commission's engineers used prices as of August 1, 1926 in case of Mendocino Electric Light and Power Company and actual or historical cost in case of the Alturas Electric Power Company. Day and Zimmerman allowed twenty and one half percent to cover overhead costs, while the Com-

mission's engineers allowed twelve percent. There is likewise a substantial difference in the method used to determine the reproduction cost new less depreciation of the properties. C. T. Mess assigned a definite period of life to each item of property. Day and Zimmerman's method of arriving at the reproduction cost less depreciation is set forth in the following quotation from the transcript, page 46 (W.L. Ross, Jr., witness)--

"Let us assume that this property ten years ago cost the equivalent of \$100,000., the present-day price, that the property has been well maintained and is in good operating condition, as good operating condition as it should be. We feel that there has been no depreciation in the value of that property; that, assuming that \$100,000. of securities have been issued on that property, the value of those securities, or the equity of those securities would be \$100,000. today; but that the company should have set aside for a renewal reserve an amount to provide for such contingencies as fire, storm, and so forth, for the protection of the investors. In such instances our allowance for accrued depreciation is merely nominal, depending upon the climatic conditions, and the risk of damage involved. If, however, the property has not been adequately maintained, and deferred maintenance is obvious from an inspection of the property, we increase the amount of our depreciation accordingly. In the case of major power plant equipment and other large items, which would not be necessarily replaced out of current maintenance, we increase the allowance for depreciation, but we did not attempt to anticipate the date upon which such units will be replaced. Our theory in this regard is also on the basis that the company should have some reserve set aside to take care of contingencies, such as the necessity of retiring these units at some future time. Inasmuch as the depreciation reserve is not earmarked to apply to individual items, there arises a diversity factor which obviously reduces the amount of reserve which it is necessary to carry. "

For water rights, in case of the Alturas Electric Power Company, Day and Zimmerman allow \$8,500.00, while the Commission's engineers allow only a nominal sum.

It is of record that the Mendocino Electric Light and Power Company has agreed to sell its properties to W. B. Foshey Co. for \$80,000.00 and that the Alturas Electric Power Company, through Mr. B. F. Lynip and I.W. Gibbins, its principal stockholders, have agreed to sell the properties of that company to W. B. Foshey Co. for a total consideration of \$164,200.00. W. B. Foshey Co. has

in turn agreed to assign the contract between it and Alturas Electric Power Company et al and between it and Mendocino Electric Light and Power Company to the Peoples California Hydro-Electric Corporation, for the amount of stock and bonds hereinbefore referred to, so that the title to the properties of the selling corporations will pass direct to applicant Peoples California Hydro-Electric Corporation. W. B. Foshay Co. will, however, pay the agreed consideration.

The Peoples California Hydro-Electric Corporation, a California Corporation, was organized on or about June 11, 1926 with an authorized stock issue of \$200,000.00 divided into 2,000 shares of the par value of \$100.00 each. The company's Articles of Incorporation recite that the place where the principal business of said corporation is to be transacted is the City and County of San Francisco. The company asks permission to issue \$57,000.00 of its common stock and \$150,000.00 of its five and one half percent 15-year bonds to W. B. Foshay Co. in payment for the properties of Mendocino Electric Light and Power Company and Alturas Electric Power Company, said properties to be transferred to it free and clear of all encumbrances. The total amount of stocks and bonds, the issue of which the Commission is asked to authorize in payment for the properties to which reference has been made, aggregates \$187,000.00. Following the hearing the Commission was requested to segregate the amount of securities that may be issued in payment for the properties of each of the two companies.

We have considered the appraisals, earning statements and other evidence submitted in this proceeding and are of the opinion that the Peoples California Hydro-Electric Corporation should be permitted to issue not exceeding \$57,000.00 of stock and not exceeding \$100,000.00 of 15-year five and one half percent bonds in payment for the properties, free and clear of all incumbrances, of Mendocino Electric Light and Power Company and Alturas Electric Power Company described in this application. Neither the stock

nor the bonds herein authorized to be issued may be issued until Peoples California Hydro-Electric Corporation can obtain a good and valid title to said properties free and clear of all incumbrances. If it can obtain such title to the properties of one company before it can obtain a similar title to the properties of the other company, it may issue in the case of the acquisition of the properties of Mendocino Electric Light and Power Company not exceeding \$10,500.00 of stock and not exceeding \$21,000.00 of bonds, and in the case of the acquisition of the properties of Alturas Electric Power Company not exceeding \$46,500.00 of stock and not exceeding \$79,000.00 of bonds.

Peoples California Hydro-Electric Corporation has not yet filed with the Commission a satisfactory copy of its proposed mortgage and/or deed of trust. While it is of record that the bonds herein authorized to be issued will be acquired by a holding company, nevertheless we are of the opinion that the mortgage and/or deed of trust executed by the Peoples California Hydro-Electric Corporation to secure the payment of such bonds should be drawn as though the bonds were being sold to the general public, rather than to a holding company.

The testimony shows that the purchaser of the properties of Mendocino Electric Light and Power Company and Alturas Electric Power Company stands ready to make all improvements necessary to give adequate service. Plans are being prepared for the installation of an auxiliary plant at Alturas. It is of record that the Peoples California Hydro-Electric Corporation intends to continue in effect for the time being, the rates now charged by the Mendocino Electric Light and Power Company and the Alturas Electric Power Company.

O R D E R

Application having been made to the Railroad Commission for an order authorizing Mendocino Electric Light and Power Company and Alturas Electric Power Company to transfer their business and electric properties described in this application to the Peoples California Hydro-Electric Corporation, and Peoples California Hydro-Electric Corporation having asked permission to acquire said properties and issue \$57,000.00 of its common capital stock ^{and} \$130,000.00 of its first mortgage bonds in payment for said properties and to execute a mortgage to secure the payment of its bonds, a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion that the transfer of the properties should be authorized and that the Peoples California Hydro-Electric Corporation should be permitted to issue not exceeding \$57,000.00 of stock and not exceeding \$100,000.00 of bonds in payment for said properties; that the money, property or labor to be procured or paid for by the issue of said stocks and bonds is reasonably required by applicant; that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application should be granted as herein provided and not otherwise, therefore

IT IS HEREBY ORDERED as follows:-

1. Alturas Electric Power Company may sell its properties generally described in the petition in this application and more particularly in applicants' Exhibit No. 1 to the Peoples California Hydro-Electric Corporation, and said Peoples California Hydro-Electric Corporation is hereby permitted to acquire said properties and to issue in payment therefor, provided it acquire the same free and clear of all incumbrances, not exceeding \$46,500.00 of stock and not exceeding \$79,000.00 face amount of five and one half percent first mortgage 15-year gold bonds.

2. Mendocino Electric Light and Power Company may sell its properties generally described in the petition in this application and more particularly in applicants' Exhibit No. 2 to the Peoples California Hydro-Electric Corporation; and said Peoples California Hydro-Electric Corporation is hereby permitted to purchase said properties and to issue in payment therefor, provided it acquire the same free and clear of all encumbrances, not exceeding \$10,500.00 of stock and not exceeding \$21,000.00 of five and one half percent first mortgage 15-year gold bonds.

3. This application insofar as it involves the issue of \$30,000.00 of 15-year five and one half percent first mortgage gold bonds is hereby dismissed without prejudice.

4. The authority herein granted to issue stock and transfer properties will become effective upon the date hereof.

5. The authority herein granted to issue bonds will become effective when the Commission has entered a supplemental order authorizing the Peoples California Hydro-Electric Corporation to execute a mortgage and/or deed of trust to secure the payment of the bonds herein authorized to be issued, and when Peoples California Hydro-Electric Corporation has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$100.00.

6. Under the authority herein granted, no property may be transferred and no stock or bonds issued after March 1st, 1927.

DATED at San Francisco, California, this 25th day of September, 1926.

Fee \$100.00
SEP 27 1926

H. W. Matthews

H. B. Prudig
Chauncy

Leon White
Thos. Brown