

LBM

Decision No. 18097.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
PACIFIC GAS AND ELECTRIC COMPANY,)
a corporation, for an order of the)
Railroad Commission of the State of)
California determining that part of)
the payments made and to be made by)
applicant under an agreement dated)
July 19, 1922 with the Yuba Develop-)
ment Company which shall be charged)
by applicant to investment or fixed)
capital account.)

Application No. 12892

C.P.Cutten and R.W.DuVal, by R.W.DuVal, for applicant.

C.J.Green, for Federal Power Commission.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked to determine and fix by order, that part or portion of each of the semi-annual payments to be made by Pacific Gas and Electric Company to the Yuba Development Company(now Yuba River Power Company) under and pursuant to the terms and provisions of an agreement dated July 19, 1922, which shall be charged by applicant to capital investment or fixed capital account.

A copy of the agreement to which reference has been made has been filed in this proceeding as Applicant's Exhibit B. It appears that the agreement, among other things, provides for the raising by Yuba Development Company of its dam constructed across the North Fork of the Yuba River, Yuba County, for the construction by Yuba Development Company below said dam of a hydroelectric generating plant having an installed capacity of 8125 K.V.A., to

operate under a maximum gross head of 175 feet and fully equipped with modern machinery capable of generating 6500 K.W. of electric power; for the obtaining of rights of way and construction thereof of an electric transmission line, together with all necessary facilities and appliances extending from the said generating plant to applicant's Colgate power house in Yuba County; for the construction in connection with the generating plant of the requisite transformers, outdoor oil and air switches at the plant, air switches at the Colgate power house, buildings for housing operators at the plant, roads, sewer systems and disposal facilities, water supply system, yard lighting, fire protection system, permanent garage and warehouse and all other necessary fixtures and appliances to complete the project ready for operation; and further, to obtain all necessary government permits in connection therewith.

The agreement of July 19, 1922 further provides for the leasing and letting by the Yuba Development Company to the Pacific Gas and Electric Company of all the work to be performed under the agreement, of the aforesaid dam and the site whereon the same was constructed, and the right by means thereof to impound and use the waters flowing and to flow in the North Fork of the Yuba River ^{except} ~~as~~ otherwise provided in the agreement, together with the hydroelectric generating plant and the electric transmission line and all permits and rights of way for the construction, maintenance and operation thereof for the full term of 25 years from and after the date of the completion of all of said work, for the yearly rental of a sum equal to eight percent of the actual cost of raising the dam, constructing and equipping the power plant and constructing the electric transmission line, provided, however, that in no event shall the Pacific Gas and Electric Company be obligated to pay a rental upon a sum in excess of \$1,150,000.00, even though the actual cost of the project shall exceed said sum. The rental shall be paid semi-annually.

The agreement further provides that at the expiration of the 25-year term the dam and site and right to impound and use water, as mentioned in said agreement(the reservoir to have a storage capacity at all times of at least 7500 acre feet) the generating plant and the land whereon the same is constructed, the electric transmission line and all permits and rights of way shall belong and become the sole property of the Pacific Gas and Electric Company, free and clear of all liens and encumbrances without the payment of any further sum. The Yuba Development Company, its successors or assigns agree to execute to the Pacific Gas and Electric Company at the end of the 25-year term, a good and sufficient deed to the properties.

It is of record that the project was completed on or about March 1, 1924 and placed in operation on March 15, 1924. The Pacific Gas and Electric Company accepted the project on March 1, 1924. The testimony shows that the total cost of the project was \$1,365,462.46. Under the agreement the Pacific Gas and Electric Company is obligated to pay as rent for the properties referred to in such agreement an amount equal to eight percent on \$1,150,000. Such payment is to be made semi-annually for a term of 25 years. The total sum of money which the Pacific Gas and Electric Company must pay under the terms of the agreement, exclusive of operating expenses, which must be borne by Pacific Gas and Electric Company, is \$2,300,000.00.

The Federal Power Commission has granted to the Yuba Development Company a permit to construct the plant. Article 29 of the Federal Power Commission license reads as follows:-

"In view of the conditions under which the project to be covered by this license is to be constructed by the licensee and of the provisions of said agreement between the licensee and the lessee covering the transfer of the properties and the amount and manner of the payment therefor under said agreement, the amount which the lessee may set up on its investment or fixed capital account, if and when the license is transferred to the lessee shall not exceed the investment of the lessee in said properties as determined in accordance with the system of accounts prescribed or to be prescribed by the Commission, provided that the part of the payments made by the lessee in accordance with said agreement which may be charged to investment or fixed capital account shall be as determined by the California Railroad Commission."

According to the record, Article 29 of the Federal Power Commission license is the basis for this application.

It does not occur to us that any of the provisions of Article 29 require or expect this Commission to determine at this time, the amount of the semi-annual payments of Pacific Gas and Electric Company that may or should be charged to investment or fixed capital account. In ordinary accounting practise, the cost of property is not recorded in fixed capital accounts, until title to such properties is acquired. In this instance the Pacific Gas and Electric Company will not, under the terms of the agreement, obtain title to the properties until twenty-five years after the date of the completion of the project or on or about March 1, 1949. Whatever payments are made by the Pacific Gas and Electric Company in the meantime are in the agreement denominated as rent. The agreement provides that if the Pacific Gas and Electric Company defaults in paying any installment of rent, all its rights may be cancelled and terminated at the option of the Yuba Development Company, who may thereupon take possession of the dam, generating plant and transmission line. We are of the opinion that it is improper for applicant to treat as additions to its fixed capital, prior to it securing title to the property, a part of the amounts paid as rent for leased property, even though it may be true that at the end of twenty-five years, subject to the regular payment of

the rent, applicant becomes the owner of the property without further payment. We believe that this application has been filed prematurely and that we should make no determination of how much, if any, of the semi-annual payments referred to herein may be charged to fixed capital account, until such time as applicant has title to the properties in question. In arriving at this conclusion we have considered this matter only from the view point of accounting. How the investment in the properties, or the rent which applicant has agreed to pay for the properties should be treated in a rate proceeding, is not now before the Commission, and therefore reserved for future consideration.

O R D E R

Pacific Gas and Electric Company having applied to the Railroad Commission to determine that part or portion of each of the semi-annual payments to be made by applicant to Yuba Development Company under and pursuant to the agreement dated July 19, 1922, that may be charged by applicant to investment or fixed capital account, a public hearing having been held before Examiner Fankhauser, evidence having been received and the matter having been duly submitted, the Commission having considered this matter and being of the opinion that for the reasons stated in the foregoing opinion this application should be dismissed without prejudice; therefore,

IT IS HEREBY ORDERED that the above entitled application be, and the same is hereby, dismissed without prejudice.

Dated at San Francisco, California, this 21st day of March, 1927.

Emergent
H. B. ...
...
Leon ...
...
Commissioners.