

Decision No. 18567

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

PACIFIC GAS AND ELECTRIC COMPANY,)

a corporation, Standard Gas and)
Electric Company, a corporation,)
and The California-Oregon Power)
Company, a corporation, for an)
order or orders of the Railroad)
Commission of the State of)
California granting and conferring)
upon Pacific Gas and Electric)
Company and The California-Oregon)
Power Company the permission and)
authority requested in this)
application.)

ORIGINAL

Application No. 13805.

C. P. Catten, for Pacific Gas and Electric Company.

Chickering & Gregory, by Allen Chickering, for
Standard Gas and Electric Company.

Brobeck, Phleger & Harrison, by Herman Phleger,
for The California-Oregon Power Company.

Scott McArthur, in propria persona.

BY THE COMMISSION:

O P I N I O N

The Pacific Gas and Electric Company, hereinafter some-
times referred to as "Pacific Company", the Standard Gas and
Electric Company, hereinafter sometimes referred to as "Standard
Company" and The California-Oregon Power Company, hereinafter
sometimes referred to as "California-Oregon Company" asked the

Railroad Commission to authorize them to perform the following acts:-

1. To permit the Pacific Company to purchase from the Standard Company the following stocks:-
 - a. 200,000 shares (\$20,000,000 par value) of the common capital stock of Sierra and San Francisco Power Company.
 - b. 7,515 shares (\$751,500 par value) of common capital stock of Western States Gas and Electric Company, a California corporation.
 - c. 32,532 shares (\$3,253,200 par value) of common capital stock of Western States Gas and Electric Company, a Delaware corporation.
 - d. 30,000 shares (\$3,000,000 par value) of common capital stock of Coast Valley Gas and Electric Company.
 - e. 250 shares (\$25,000 par value) of common capital stock of the Del Monte Light and Power Company.
2. To permit the Pacific Company to purchase from the Standard Company and/or its subsidiary corporations, all land, contracts, option, water and other rights, and legal, accounting and engineering data, including all rights, interests, property and data of every character hitherto acquired, connected with a certain power project on the South and Middle Forks of the Feather River in California, of which the Bean Creek Project is a part, subject, however, to all obligations existing May 1, 1927.
3. Authorizing the Pacific Company to issue 260,000 shares (\$6,500,000 par value) of its common capital stock in accordance with the provisions in the Public Utilities Act.
4. Authorizing the Pacific Company to consummate the agreement of April 27, 1927, (Exhibit "D") in accordance

with its terms and conditions.

5. Authorizing the Pacific Company and The California-Oregon Company to enter into power contracts as provided in paragraph 3 of the agreement of April 27, 1927, (Exhibit "D").

Through the granting of this application and the execution of the agreement filed in this proceeding as Exhibit "D", the Pacific Company will acquire control of the Western States Gas and Electric Company of Delaware and through it of the Western States Gas and Electric Company of California, of the Sierra and San Francisco Power Company; of the Coast Valleys Gas and Electric Company and of the Del Monte Light and Power Company. In purchasing the stocks, to which reference has been made, the Pacific Company, according to the record, merely steps into the position heretofore occupied by Standard Gas and Electric Company with respect to the control exercised by the latter through ownership of stocks. The acquisition of such stocks, it is said, will bring about no immediate change in the status of the several corporations or any change in contractual or other obligations except that the contract under which the Byllesby Engineering and Management Corporation of Chicago now supervises the engineering and operation of the companies will be cancelled and such supervision exercised directly by Pacific Gas and Electric Company through its existing organization.

The Commission in general is familiar with the properties of the Western States Gas and Electric Company; Sierra and San Francisco Power Company, Coast Valleys Gas and Electric Company and Pacific Gas and Electric Company. The Sierra and San Francisco Power Company properties are operated by the Pacific

Gas and Electric Company under a lease which this Commission authorized by Decision No. 7032 in Application No. 5146. The lease is for a period of fifteen years from and after January 1, 1920. Prior to the execution of such lease the Sierra and San Francisco Power Company, as a public utility, engaged, among other things, in the generation, transmission and distribution of electric energy for light, heat and power purposes in the Mother Lode District, Tuolumne and Calaveras Counties, and in the Counties of Stanislaus, San Joaquin, Contra Costa, Alameda, Santa Clara, San Mateo, San Benito and Monterey and in the City and County of San Francisco.

The Western States Gas and Electric Company is a public utility engaged in the business of producing, generating, transmitting, and selling electric energy, gas, and, to a small extent, water to the public in northern and central California. This company furnishes and sells electrical energy in the Counties of San Joaquin, Humboldt, Trinity, Sacramento, Calaveras, Amador, El Dorado and Contra Costa; and generates and distributes gas in the City of Eureka, Humboldt County, and in the City of Stockton, San Joaquin County, and distributes water to four or five consumers along the Placerville Ridge, El Dorado County. The Western States Gas and Electric Company, through stock ownership, controls the El Dorado Power Company, which is the owner of a certain hydro-electric plant and properties located on the South Fork of the American River, consisting of American River Power House, El Dorado Power House and storage reservoirs and appurtenances.

Coast Valleys Gas and Electric Company is a public utility engaged in the business of generating, distributing and delivering gas at Monterey, Pacific Grove and Salinas, and in the transmission, distribution and sale of electric energy in Monterey, Pacific Grove, Salinas, Kings City, Carmel, San Ardo, Castroville

and a large part of Monterey County and a portion of San Benito County. It also distributes water in Salinas and King City.

The Pacific Gas and Electric Company has, since January 1, 1920, operated the properties of Sierra and San Francisco Power Company. The Coast Valleys Gas and Electric Company obtains its electric energy from the Pacific Gas and Electric Company - Sierra and San Francisco system. The electric systems of Western States Gas and Electric Company and Pacific Gas and Electric Company are also interconnected. Though the electric systems of the several companies are interconnected and in some instances properties of one company surround the properties of another, there is practically no property which, because of duplication, would be abandoned in the event of consolidation.

In Exhibit No. 3, prepared by J. T. Ryan, Valuation Engineer of the Pacific Gas and Electric Company, the reproduction cost new of the physical properties of the Western States Gas and Electric Company, Coast Valleys Gas and Electric Company and Sierra and San Francisco Power Company are reported as follows:-

Western States Gas and Electric Company;	
As of March 31, 1927:	
Electric Department Capital	\$20,366,879
Gas Department Capital	4,291,461
General Capital	627,962
Materials and Supplies	382,867
Additions and Betterments, Apr. 1927	139,443
Total, as of April 30, 1927,	<u>\$25,808,612</u>
Coast Valleys Gas and Electric Company:	
As of March 31, 1927:	
Electric Department Capital	\$ 3,176,162
Gas Department Capital	926,326
Water Department Capital	405,546
General Capital	946,651
Materials and Supplies	157,915
Additions & Betterments, April 1927	73,281
Total, as of April 30, 1927,	<u>\$ 5,685,881</u>
Sierra and San Francisco Power Company:	
As of April 30, 1927:	
Electric Department Capital	\$26,743,302
Water Department Capital	945,657
All Department Capital	4,529
Non-Operative Properties	726,510
Materials and Supplies	8,145
Total, Sierra & San Francisco Power Company,	<u>\$28,428,143</u>
TOTAL, PHYSICAL PROPERTIES AS OF APRIL 30, 1927,	
	<u>\$59,922,636</u>
Present Value of La Grange Contract, as of	
April 30, 1927 (S.&S.F.Pr.Co.)	\$487,500
Less Amounts included in Inventory Accounts	
for La Grange Plant (S.&S.F.Pr.Co.)	<u>380,984</u>
Net Value of La Grange Contract	<u>\$ 106,516</u>
TOTAL, AS OF APRIL 30, 1927	<u>\$60,029,152</u>

It is of record that the reproduction cost new, as stated herein, does not include any organization expenses, development costs, value for water rights or other intangible values. To the estimated reproduction cost of the physical properties reported at \$60,029,152.00 should be added the actual expenditures of \$490,133.51 (as of May 31, 1927) on a certain power project on the South and Middle Forks of the Feather River, which the Pacific Gas and Electric Company is acquiring, and the excess (\$841,511.93) of current assets over current liabilities, making a grand total of \$61,360,797.44. The amount which the Pacific Gas and Electric Company is paying for the control of the Western States Gas and Electric Company, Sierra and San Francisco Power Company and Coast Valleys Gas and Electric Company and for the Feather River project and the amount of stocks and bonds of those companies left outstanding is as follows:-

Stock and Cash Given in Purchase:

Pacific Gas and Electric Co.		
Common Stock, at par	\$6,500,000	
Cash	<u>2,085,000</u>	\$ 8,585,000

Securities Left Outstanding:

Bonds Outst'g. Western States of Cal. .	\$17,051,000	
do. Sierra Co.	19,956,000	
do. Coast Valleys.	<u>1,813,000</u>	38,820,000
Preferred Stock Out'g. West. St. of Del. .	\$ 2,125,000	
do. " " " Cal.	4,625,000	
do. Coast Valleys	<u>2,530,500</u>	9,280,500
		<u>\$56,685,500</u>

Balance owing by Sierra & San Francisco Power Co. to Pacific Gas & Electric Co. on "Capital Expenditures Account" under lease (in dispute)	<u>4,320,061</u>
	\$61,005,561

The project referred to as the Feather River project consists of four units known as the Nelson Point development, the Middle development, the Bean Creek development and Bidwell's Bar development. It contemplates three storage reservoirs known as

Gold Lake Reservoir, Clio Reservoir and Grizzly Reservoir. It is estimated that the four units will have a capacity of 360,198 horse power. The testimony shows that up to May 31, 1927, the sum of \$490,133.81 was expended on the project. It is believed the project as a whole can be developed at a cost of \$117.50 per horse power. The Sierra and San Francisco Power Company, it is reported, has undeveloped hydro-electric power sites capable of producing about 100,000 horse power and Western States Gas and Electric Company 86,042 horse power. Through the proposed transaction the Pacific Gas and Electric Company will obtain undeveloped hydro-electric power sites having an estimated capacity of about 546,000 horse power.

For the properties to which reference has been made herein, the Pacific Company has agreed to issue and deliver to the Standard Company as fully paid, 260,000 shares (\$6,500,000 par value) of its common stock of the par value of \$25.00 per share and has agreed to pay to the said Standard Company \$2,085,000 in cash. The Pacific Company has also agreed to purchase from The California-Oregon Company for a period of twenty-five years the output from 10,000 kilowatts of hydro-electric generating capacity upon the terms and conditions and at the same rate as the Pacific Company is now purchasing electric energy from said The California-Oregon Company under a certain agreement dated May 20, 1924, which was executed pursuant to the authority granted in Decision No. 13627. The Pacific Company has further agreed to renew upon its expiration in 1929, for the period of twenty-five years, that certain agreement entered into by and between California-Oregon Power Company, Northern California Power Company, Consolidated and Pacific Gas and Electric Company, dated June 11, 1918, as modified, under which agreement the

Pacific Company is now purchasing from California-Oregon 12,500 kilowatts of electrical energy. The agreement of June 11, 1918, was executed pursuant to the authority by Decision No. 5375, dated May 2, 1918.

W. E. Creed, president of Pacific Gas and Electric Company, testified that he gave little consideration to the physical properties of the companies other than satisfy himself that they were adequate and in good condition. The valuable thing, from the standpoint of the Pacific Gas and Electric Company is, according to his testimony, the addition of about \$8,000,000 of business and the opportunity such added business gives his company to reduce its overhead costs.

It is of record that the consolidation of the properties referred to under the control and management of the Pacific Company will make possible economies of operation resulting in the reductions in the cost of service, which ultimately will work to the advantage and benefit of the consumers of the different companies. It is believed that a saving of \$332,865 (Exhibit No. 2) can be effected forthwith and that a further saving of \$175,000 can be brought about by refinancing in whole or in part the properties of the Western States Gas and Electric Company, Sierra and San Francisco Power Company, and Coast Valleys Gas and Electric Company. Additional economies will probably be realized from discontinuing the special construction organization at Placerville, by the improvement in load factor on crews and equipment at Stockton, Lodi and Richmond where two separate organizations are now maintained; by better and more complete utilization of hydro output from plants of Western States Gas and Electric Company and the unrestricted interchange of energy between the two systems; by the use at Eureka of surplus hydro power from Pacific Gas and Electric Company system to supplant electric energy generated by steam.

O R D E R

Applicants, Pacific Gas and Electric Company, Standard Gas and Electric Company and The California-Oregon Power Company, having requested permission to perform the acts referred to in the opinion which precedes this order, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that this application should be granted as herein provided; that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required by the Pacific Gas and Electric Company for the purpose stated herein and that such purpose is not in whole or in part reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:-

1. Pacific Gas and Electric Company may acquire and hold the following capital stock:-
 - a. \$20,000,000 par value of common stock of Sierra and San Francisco Power Company.
 - b. \$751,500 par value of common stock of Western States Gas and Electric Company, a California corporation.
 - c. \$3,253,200 par value of common stock of Western States Gas and Electric Company, a Delaware corporation.
 - d. \$3,000,000 par value of common stock of Coast Valleys Gas and Electric Company.
 - e. \$25,000 par value of capital stock of Del Monte Light and Power Company.

2. Pacific Gas and Electric Company may purchase and acquire from the Standard Gas and Electric Company and/or its subsidiary corporations, all land, contracts, option, water and other rights, and legal, accounting and

engineering data including all rights, interests, property and data of every character hitherto acquired, connected with a certain power project on the South and Middle Forks of the Feather River in California, of which the Bean Creek Project is a part, subject, however, to all obligations existing May 1, 1927.

3. Pacific Gas and Electric Company may issue and deliver to the Standard Gas and Electric Company as fully paid and as part consideration for the stock, property and rights ^{which} said Standard Gas and Electric Company has agreed to sell to the Pacific Gas and Electric Company 260,000 shares of its common capital stock of the par value of \$25.00 per share and of an aggregate par value of \$6,500,000.
4. Pacific Gas and Electric Company may perform such further acts as may be necessary to consummate the agreement of April 27, 1927, (Exhibit "D") in accordance with its terms and conditions.
5. Pacific Gas and Electric Company and The California-Oregon Power Company may execute an agreement substantially in the same form as the agreement filed in this proceeding and marked Exhibit 4 and may execute such further agreements as are contemplated by paragraph three of Exhibit "D".
6. Pacific Gas and Electric Company shall file with the Railroad Commission monthly reports, such as are required by the Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.
7. The authority herein granted will become effective within twenty (20) days after the date hereof.

8. The consideration which the Pacific Gas and Electric Company has agreed to pay for the stock and properties referred to herein shall not be urged before this Commission as a measure of the value of said properties for any purpose other than the transfer herein authorized.

DATED at San Francisco, California, this 30th
day of June, 1927.

H. R. Brundage

C. Shaw

Thos. S. Roettli

Commissioners.