

ORIGINAL

Decision No. 19372.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 TUOLUMNE COUNTY ELECTRIC POWER AND)
 LIGHT COMPANY,)
 a corporation, and Pacific Gas and)
 Electric Company, a corporation,)
 for an order of the Railroad)
 Commission of the State of)
 California authorizing the former)
 to sell and convey and the latter)
 to purchase and acquire the proper-)
 ties referred to in this applica-)
 tion.)

Application No. 14278.

F. D. Madison, for Tuolumne County Electric
 Power and Light Company.
 C. P. Cutten, for Pacific Gas and Electric
 Company.

BY THE COMMISSION:

O P I N I O N

In this application the Railroad Commission is asked to make an order authorizing Tuolumne County Electric Power and Light Company to sell, for \$160,500.00, to Pacific Gas and Electric Company, its public utility properties and business, under and in accordance with the provisions of an agreement of sale, dated December 9, 1927, and, upon the sale and conveyance of such properties and business to Pacific Gas and Electric Company, to cease furnishing and supplying electric energy in the territory in which it now operates.

The application shows that Tuolumne County Electric Power and Light Company is a public utility engaged in the business of distributing and selling electric energy for light, heat and power purposes in the City of Sonora and the Towns of Columbia, Jamestown, Stent and Quartz and in adjacent and intervening territory, all in Tuolumne County. The company purchases the energy it distributes from the lines of the Pacific Gas and Electric Company at Sonora and distributes it to about 1,150 consumers. It reports its operating revenues during 1927 at \$58,496.82, its operating expenses, including depreciation, at \$44,047.98 and its net operating revenues at \$14,448.84.

It appears that those in control of the affairs of Tuolumne County Electric Power and Light Company desire to withdraw from the public utility business and to that end have made arrangements, under the agreement dated December 9, 1927, to dispose of the utility properties to Pacific Gas and Electric Company for \$160,500., payable in cash, transfer to be made free and clear of all liens and encumbrances.

The properties to be transferred, according to the agreement, include "the vendor's electric transmission and distribution system in the City of Sonora and in unincorporated territory in the County of Tuolumne, and all substations, transformers, meters, electrical appliances, apparatus and equipment, electrical materials and supplies on hand (except those which are hereinbefore expressly excepted from the operations of this agreement), automobiles, trucks and other conveyances, all tools, machinery and mechanical devices, its business of selling and distributing electricity and the good will of such business, all franchises for the construction, maintenance and operation of its electric lines and systems, all rights of way, easements, leases and contracts for the purchase and sale of electric energy."

An inventory and appraisal of the properties involved in this proceeding was made by the Commission's Engineering Department in connection with Case 2289, and the historical cost, as of December 31, 1926, estimated at \$96,190.00. Applicants now report in Exhibit 3, filed in this proceeding, net additions during 1927 of \$5,055.29 which, added to the \$96,190.00, brings the total up to \$101,245.29. In addition, an inventory and appraisal was made by J. T. Ryan, valuation engineer of Pacific Gas and Electric Company, who estimates, as shown in Exhibit 5, the reproduction cost new, as of December 6, 1927, at \$113,041.00. No deductions were made by J.T.Ryan from either the estimate of original cost or his estimate of reproduction cost new on account of depreciation.

It will be observed that the purchase price of \$160,500.00 is considerably in excess of any of the valuation figures submitted. A.F. Hockenbeamer, president of Pacific Gas and Electric Company, testified that such purchase price was determined by negotiations between representatives of the two companies. Though in his opinion the purchasing company may earn a fair return on the purchase price, we do not believe that it is in the public interest to permit the Pacific Gas and Electric Company to charge all of the \$160,500.00 to fixed capital accounts. In this connection we might call attention to the fact that the Commission has repeatedly held that where utilities were paying more for public utility properties than the actual or estimated historical cost of said properties, including land at present value, the difference between such cost and the purchase price should be charged to surplus and not capitalized through the issue of securities. Reference is here made to some of the Commission's decisions relating to this matter. (See 12 C.R.C. 485; 16 C.R.C. 799; 21 C.R.C. 858; 28 C.R.C. 585; 28 C.R.C. 625; 28 C.R.C. 361; and Decision No. 18775, Sept. 10, 1927.)

If the Pacific Gas and Electric Company acquires the properties it may not charge to fixed capital accounts more than \$101,245.29 plus the cost to the Tuolumne County Electric Power and Light Company of additions and betterments from December 31, 1927 to the date of the transfer of the properties. It may charge to Account 117-materials and supplies,

the cost to the Tuolumne County Electric Power and Light Company of the materials and supplies transferred. The balance of the price paid for the properties by the Pacific Gas and Electric Company must be charged to Account 508, miscellaneous debits to profit and loss.

It is urged, in support of the application, that the two systems are already interconnected so that the properties of Tuolumne County Electric Power and Light Company can be operated by Pacific Gas and Electric Company with but few additions to its present organization and that the latter company, because of its more complete organization and greater financial resources, can operate such properties more efficiently and economically and improve the service and develop additional business.

ORDER

Application having been made to the Railroad Commission by the Tuolumne County Electric Power and Light Company to sell certain of its properties to Pacific Gas and Electric Company, which company asks permission to purchase and acquire said properties, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the transfer of the properties is in the public interest, provided such transfer is made in accordance with the terms and provisions of this order:

IT IS HEREBY ORDERED that Tuolumne County Electric Power and Light Company be, and it hereby is, authorized to sell and convey on or before June 30, 1928, to the Pacific Gas and Electric Company, and Pacific Gas and Electric Company be, and it hereby is, authorized to purchase and acquire all of the properties which the former has agreed to sell to the latter in the agreement of sale dated December 9, 1927, a copy of which is on file in this proceeding.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company shall charge to fixed capital account, as that term is defined in the Uniform System of Accounts for Electrical Corporations prescribed by this Commission and effective on January 1, 1923, not

more than \$101,245.29 plus the cost of additions and betterments from December 31, 1927 to the date of the transfer of the properties; that it shall charge to Account 117-Materials and Supplies, the cost to the Tuolumne County Electric Power and Light Company of the materials and supplies transferred, and shall charge the difference between the amount paid to the Tuolumne County Electric Power and Light Company and said \$101,245.29, said cost of additions and betterments and said cost of said materials and supplies, to Account 508, Miscellaneous debits to profit and loss.

IT IS HEREBY FURTHER ORDERED that Tuolumne County Electric Power and Light Company be, and it hereby is, authorized upon the sale and conveyance to Pacific Gas and Electric Company of the properties herein authorized to be sold and transferred, to cease furnishing and supplying electric energy in the territory in which it now furnishes electric energy by means of such properties.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company within thirty (30) days after acquiring ownership and possession of the properties herein authorized to be transferred, shall file with the Commission a certified copy of the deed or other instrument of conveyance, and also a copy of each and every book keeping entry entered on its books to record the aforesaid transaction.

IT IS HEREBY FURTHER ORDERED that Tuolumne County Electric Power and Light Company shall file with the Commission a report, on the regular annual report forms prescribed by this Commission, covering the period from January 1, 1928, down to the date upon which it ceases its public utility operations, said report to be filed within thirty (30) days after the transfer of the aforesaid properties.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall become effective twenty (20) days from the date hereof.

DATED at San Francisco, California, this 16th day of February, 1928.

Leon White

C. Deany

Emmanuel

Thos. J. Rutter

M. J. ...

Commissioners.