

aggregate amount of \$387,700.00, by Public Utilities California Corporation.

In Application No. 15406, Needles Gas & Electric Company asks permission to transfer all of its properties, franchises and business, subject to a bonded indebtedness of \$174,500.00, to Public Utilities California Corporation, which corporation asks permission to acquire such properties, franchises and business, subject to said bonded indebtedness, and to issue in part payment \$206,000.00 of its common capital stock. In Application No. 15405 Public Utilities California Corporation asks permission to issue \$178,400.00 of its common capital stock to finance the cost of retiring the bonded indebtedness of Needles Gas & Electric Company, after acquiring its properties, franchises and business. In Application No. 15531 Public Utilities California Corporation asks permission to issue \$3,300.00 of its common capital stock to finance the cost of acquiring from The Arizona, California & Nevada Telephone Company that portion of its toll line extending from Needles, California, to Kingman, Arizona, that lies within the State of California. The Commission also is asked to approve an interconnecting agreement between Public Utilities California Corporation and Public Utilities Consolidated Corporation.

The record shows that Needles Gas & Electric Company is a corporation organized under and by virtue of the laws of the State of California and engaged in the business of operating an electric system, a gas system and a telephone and telegraph system in and about Needles. The electric properties include a generating plant consisting of five generating units actuated by oil engines and having a combined capacity of 835 K.V.A. and operating at 2300 volts, tying directly into the primary distribution system which consists of 473 poles and 46 miles of copper wire. At present there are approximately 840 consumers. The gas properties include two oil

gas sets having a combined rating of 15,000 cubic feet per hour, two holders of an aggregate capacity of 40,000 cubic feet, and a distributing system consisting of 7.3 miles of standard screw pipe supplying 483 consumers, all metered. The telephone properties consist of a Kellogg common battery, one position, two panel switchboard with a capacity of 400 lines, a distributing system of 67 miles of wire, and station apparatus of 365 telephones and 12 extensions. Toll connections are made with the lines of The Arizona California & Nevada Telephone Company.

In annual reports filed with the Commission Needles Gas & Electric Company has reported total gross revenues for 1926 at \$86,927.25; for 1927 at \$93,783.39; and for 1928 at \$101,190.34. After deducting operating expenses, taxes and depreciation it has reported net operating revenues for 1926 at \$17,727.49; for 1927 at \$15,037.33; and for 1928 at \$17,749.74. Its assets and liabilities at the close of 1928 were reported as follows;-

ASSETS:

Fixed Capital:

Electric	\$193,433.09	
Gas	105,019.37	
Telephone	48,670.43	
Miscellaneous	<u>1,211.50</u>	\$348,334.39
Current assets		29,102.97
Deferred charges		<u>12,880.63</u>
Total assets.....		<u>\$390,317.99</u>

LIABILITIES:

Capital stock	\$100,000.00
Funded debt	176,500.00
Current liabilities	18,696.22
Deferred credits	540.12
Reserves	60,622.87
Surplus	<u>33,958.78</u>
Total liabilities.....	<u>\$390,317.99</u>

It appears that Needles Gas & Electric Company has entered into an agreement to sell all of its properties to W. B. Foshay Company in consideration for the sum of \$206,000.00 plus the assumption of bonded indebtedness of not exceeding \$174,500.00. Needles Gas &

Electric Company will pay all of the other liabilities and will retain the cash and other current assets at the time of transfer. While the foregoing balance sheet shows funded debt of \$176,500.00 it seems that there has been deposited in the sinking fund, cash to retire \$2,000.00 of bonds, so that the balance to be assumed by the purchasing company is \$174,500.00. W. B. Foshay Company has made arrangements to have the properties conveyed to Public Utilities California Corporation subject to the bonded indebtedness in consideration for the issuance by that company of \$206,000.00 of its common capital stock.

In support of the proposed purchase price and stock issue, applicants have filed in these proceedings a report prepared by The Loveland Engineers, Inc. containing an appraisal of the properties as of May 31, 1928. The report shows the following;-

Reproduction cost	\$450,961.00
Reproduction cost less depreciation	361,941.00
Original cost	370,672.00
Original cost less depreciation	317,696.00

Mr. W. M. McKay of the Commission's Engineering Department estimates the historical cost of the properties as of May 31, 1928 at \$327,096. and the historical cost less depreciation at \$267,142.

The Commission has repeatedly held that it would not recognize either the reproduction cost new or the reproduction cost new less depreciation of properties as a basis for the issue of securities. It has been proceeding on the theory that the securities authorized should be based on the cost of acquiring and constructing public utility properties, due consideration being given to the earnings of the properties. If the properties, as in this instance, are not new, and the proceeding involves the refinancing of existing properties, consideration is given to the present value of land, and to the accrued depreciation.

The figures submitted show the estimated historical cost of the properties, less depreciation, to be as follows;-

ITEM	The Loveland Engineers, Inc.	W.M. McKay
Physical properties:		
Electric	\$ 136,977.00	\$ 130,790.00
Gas	86,450.00	80,728.00
Telephone	16,494.00	16,510.00
Joint	25,210.00	24,702.00
Materials and supplies . . .	10,512.00	10,512.00
Total physical properties	\$ 275,643.00	\$ 263,242.00
Intangible properties:		
Organization and preliminary	\$ 7,500.00	\$ 3,300.00
Franchises	3,000.00	600.00
Cost of acquiring lands . .	553.00	-
Going concern	31,000.00	-
Total intangible properties	\$ 42,053.00	\$ 3,900.00
Total all properties	\$ 317,696.00	\$ 267,142.00

The tabulations show that the chief differences between the two valuations lie in the items comprising the intangible capital. The allowances for organization and preliminary expenses and for franchises, in both cases, represent estimates by the appraising engineers of the reasonable cost of such items, rather than actual expenditures by the selling corporation. The item of \$31,000.00 for going concern value is, of course, an estimate also. The Commission will not recognize the \$31,000.00 as a basis for the issue of stock. Excluding this amount from the figures prepared by The Loveland Engineers, Inc. representing the estimated original cost less depreciation, there would be left the sum of \$286,696.00, as compared with Mr. McKay's estimate of \$267,142.00.

The Commission is of the opinion that the Needles Gas & Electric Company should be permitted to sell its properties to Public Utilities California Corporation. The Public Utilities California Corporation will be permitted to issue in part payment for such properties not exceeding \$100,000.00 par value of its common capital stock and buy the properties subject to a bonded indebtedness of \$174,500.00.

The purchaser proposes to retire the outstanding bonds and it reports the cost of doing so at \$178,392.62, made up as follows;

Face value of bonds	\$174,500.00
Two percent premium	3,490.00
Trustees fees	392.62
Advertising cost	10.00
Total	<u>\$178,392.62</u>

It asks permission to issue \$178,400.00 of stock to finance this cost. This request will be granted.

Coming to Application No. 15531 it appears that W. B. Foshay Company has made arrangements to purchase the properties and systems of The Arizona, California & Nevada Telephone Company, an Arizona corporation, which properties include a toll telephone line extending from Kingman, Arizona, to Needles, California, crossing the boundary line between the two states at a point called Topock. It has agreed to transfer to Public Utilities California Corporation for \$3,300.00 of stock, the portion of such toll line that is within the state. This portion, extending from Topock to Needles, consists of about ten miles of No. 12 galvanized iron wire on redwood poles. The estimated historical cost, and historical cost less depreciation, is estimated by The Loveland Engineers, Inc. as follows;-

ITEM	HISTORICAL	HISTORICAL
	COST	COST LESS DEPRECIATION
Toll pole lines	\$ 2,498.00	\$ 1,886.00
Toll aerial wire	1,426.00	1,141.00
Interest during construction	78.00	61.00
Organization	139.00	139.00
Franchises	55.00	55.00
Going concern	68.00	68.00
Total	\$ 4,264.00	\$ 3,350.00

While we do not accept the allowance for going concern contained in the foregoing tabulation, it appears to us that the issue of \$3,300.00 of stock for the properties is not unreasonable, and the

order herein will so permit. We do not believe that this Commission's approval is needed for the interconnecting agreement with the Arizona corporation.

ORDER

Applications having been made to the Railroad Commission for orders authorizing the transfer of public utility properties and the issue of \$387,700.00 of stock, a public hearing having been held before Examiner Rowell, and the Railroad Commission being of the opinion that the transfer should be authorized, as herein provided, but that the issue of only \$281,700.00 of stock is reasonably required for the purposes specified herein, which purposes are not in whole or in part reasonably chargeable to operating expense or to income,

,IT IS HEREBY ORDERED, that--

1. Needles Gas & Electric Company may transfer all of its electric, gas and telephone properties and business, subject to a bonded indebtedness of not exceeding \$174,500.00 to Public Utilities California Corporation.
2. Public Utilities California Corporation may acquire such properties, subject to said bonded indebtedness of not exceeding \$174,500.00 and may issue in part payment not exceeding \$100,000.00 of its common capital stock.
3. Application No. 15406 insofar as it involves the issue of \$106,000.00 of stock is denied without prejudice.
4. Public Utilities California Corporation, upon acquiring the properties of Needles Gas & Electric Company, subject to said indebtedness of not exceeding \$174,500.00 may issue and sell at not less than par, \$178,400.00 of its common capital stock, to finance the

cost of paying ^{said} bonded indebtedness.

5. Public Utilities California Corporation may issue \$3,300.00 of its common capital stock to pay in full for the portion of the toll line from Kingman, Arizona, to Needles, California, that lies within the State of California.

6. Application No. 15531 insofar as it requests the Railroad Commission's approval of the interconnecting agreement between Public Utilities California Corporation and Public Utilities Consolidated Corporation, is dismissed without prejudice.

7. Public Utilities California Corporation, if it acquires the properties of Needles Gas & Electric Company, may charge to its fixed capital accounts not exceeding \$327,000.00 in recording such acquisition on its books of account. If it pays more for such properties than \$274,500.00 represented by the issue of \$100,000.00 of stock and the assumption of \$174,500.00 of bonds, it must charge such excess to its corporate surplus account.

8. Public Utilities California Corporation shall file with the Commission within sixty days after acquiring the properties referred to herein, certified copies of the deeds of conveyance, a statement showing the exact date upon which it acquired such properties, and a report, or reports, as required by the Railroad Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.

9. The authority herein granted shall become effective ten days from the date hereof.

DATED at San Francisco, California, this 10th day of May, 1929.

Thos. J. Loutch
Chas. J. Loutch
Leon Whitell

Commissioners