

Decision No. 21172

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 J. M. HOTCHKISS & HOBBS, WALL & CO.)
 to sell the properties operated as)
 the J. M. Hotchkiss Electric)
 Company, and of Public Utilities)
 California Corporation to purchase)
 and operate said properties and to)
 issue One Hundred and Twenty-five)
 Thousand (\$125,000.00) Dollars per)
 value of its common capital stock)
 in connection with the acquisition)
 of said properties.)

ORIGINAL

Application No. 15407.

Orrick, Palmer & Dahlquist,
 by R. W. Palmer for applicant,
 Public Utilities California Corporation;

J. M. Hotchkiss for J. M. Hotchkiss Electric
 Company and Hobbs, Wall & Co.

BY THE COMMISSION:

OPINION

In this proceeding the Railroad Commission is asked to enter its order authorizing J. M. Hotchkiss Electric Company and Hobbs, Wall & Co. to transfer all of their/^{public utility}business and properties, operated as J. M. Hotchkiss Electric Company to Public Utilities California Corporation, and authorizing Public Utilities California Corporation to acquire and operate said properties and business and further authorizing the Public Utilities California Corporation to issue \$125,000.00 par value of its common capital stock to acquire said properties.

The record shows that the J. M. Hotchkiss Electric Company and Hobbs, Wall & Co., a corporation, own, control and operate an electric light and generating plant and system situate in and about Crescent City, California. The electric plant was first established and operated for the convenience and benefit of Hobbs, Wall & Co., which is engaged in the lumber and shipping business. Subsequently, it was and is now being used to supply electric energy to the residents and industries of Crescent City and vicinity. The testimony shows that there are about seven hundred consumers attached to the electric system.

Under date of December 17, 1928 J. M. Hotchkiss and Hobbs, Wall & Co. agreed to sell their electric properties to W. B. Foshay Company for \$125,000.00. A copy of the agreement of sale is on file in this proceeding. The properties covered by the agreement are more particularly described in paragraph one of the agreement as follows:-

"The Sellers (J. M. Hotchkiss and Hobbs, Wall & Co.) hereby agree to sell, and the Buyer (W. B. Foshay Company) hereby agrees to buy all of the franchises, physical properties (real and personal), business and good-will of said electric light and generating plant system and all physical properties operated by or in connection therewith, together with all rights, privileges and systems connected with, incident to and/or a part of said business in said City of Crescent City, California, and adjoining territory, (excepting only cash on hand and in banks and account receivable on the closing date hereinafter defined) including the distributing system, rights-of-way to maintain the same, the steam plant consisting of boilers, engines, pumps and other equipment, the foundations for the new steam plant and the real property on which said steam plant and foundations are situate, all supplies on hand, and the four new New-Way boilers complete and purchased for said system and now stored at San Francisco (said boilers to be delivered to the Buyer free of cost to it at Crescent City, California), all of said property to be free and clear of all liens and encumbrances of every kind and nature (except current taxes not delinquent and except, as thereafter mentioned, in Subdivision 2 of Paragraph 5 hereof) for the

"total purchase price of \$125,000.00 of which the Sellers acknowledged receipt of \$5,000.00 at the signing of this agreement.

The real property on which said steam plant and foundations are situate shall include all necessary rights of way for ingress and egress and for wires and poles and also the real property lying between said steam plant and said foundations and a strip approximately ten feet wide surrounding said steam plant and a strip approximately ten feet wide surrounding said foundations; provided that if said steam plant or said foundations are at any point or points closer than ten feet to the boundary line between land of the Sellers and land of others, said strips shall not extend past such boundary line at such point or points. In addition to the property hereinabove agreed to be sold, the Sellers agree to include sufficient lumber for a suitable building to house the new power plant to be constructed on said foundations."

Appraisals of the properties have been submitted by The Loveland Engineers, Inc. and by Joseph Waithman, an assistant engineer for the Railroad Commission. In proceedings of this nature the Commission has repeatedly held that the amount of securities which it would permit a purchaser to issue in payment for properties should be approximately equal to the historical cost of the properties including present value of land, less accrued depreciation. The Loveland Engineers, Inc. estimate the historical cost of the properties as of December 31, 1928 at \$119,238.00. Deducting from this their accumulated accrued depreciation of \$16,444.00, which is calculated on a six percent sinking fund basis, leaves a balance of \$102,794.00. The \$102,794.00 includes \$15,000.00 as an alleged going concern value, an item of property which the Commission feels should not be capitalized. Deducting the \$15,000.00 leaves a balance of \$87,794.00. Joseph Waithman estimates the historical cost new of the properties at \$97,641.00 and the historical cost new less

depreciation calculating the depreciation on a five percent sinking fund basis, at \$77,574.00. The figures of both engineers include the cost of property under construction. The Loveland Engineers, Inc. include as the cost of property under construction, which property, according to the testimony, is covered by the contract of purchase and sale - \$39,057.00. Joseph Waithman, on the other hand, allows \$33,553.00 as the cost of property under construction. It appears that the figures submitted by The Loveland Engineers, Inc. include estimates of some of the cost of such property, whereas Mr. Waithman's figures include the actual cost as reflected by the books of Hobbs, Wall & Co. except that he has included the cost of \$2.60 per yard for gravel which has been used in the construction of the concrete foundation instead of fifty cents per yard as shown by the books of Hobbs, Wall & Co. The fifty cent per yard cost figure, in the opinion of Mr. Waithman, covers only the cost of handling the gravel and therefore does not reflect the real cost of the gravel in place. We believe that where actual cost figures are available that such figures, rather than estimates of cost, should be used as a basis for the issue of securities. The record in this proceeding shows that the new plant which was in course of construction at the time the valuations were made is now completed and that it is the intention of the purchaser to hereafter file with this Commission an application for permission to capitalize the cost of the plant which may not be capitalized by the issue of the stock herein authorized. For the purpose of this or any other proceeding, we will authorize the capitalization of \$33,553.00 of the cost of the new plant. The capitalization of the balance of the cost of such plant will be considered when an application

to capitalize the same is presented to the Commission.

From a consideration of the record in this proceeding, we believe that the transfer of the properties referred to herein is in the public interest provided that the purchaser does not issue more than \$80,000.00 of stock in payment for the properties referred to herein and that not more than \$100,065.00 be charged to fixed capital accounts. The amounts^{so} charged to fixed capital accounts will be offset by the \$80,000.00 of stock herein authorized to be issued and a credit to the reserve for accrued depreciation in the amount of \$20,065.00.

The record shows that the California Public Utilities Corporation will continue in effect for the time being the rates which are now charged by the J. M. Hotchkiss Electric Company. It is giving, however, consideration to modifying the rates with the expectation that the same, or at least some of the rate schedules, may be reduced. It is understood by the purchaser that any rate adjustment which might result in an increase in rates to any particular consumer or class of consumers can only be put into effect after a public hearing.

The testimony shows that the purchaser will acquire a franchise recently granted by Crescent City to the J. M. Hotchkiss Electric Company and Hobbs, Wall & Co. and that the purchaser has applied to the Board of Supervisors of Del Norte County for a county franchise. This proceeding does not involve the granting of certificates of public convenience and necessity to exercise any rights and privileges now granted or that may hereafter be granted by such franchises.

O R D E R

Application having been made to the Railroad Commission for an order authorizing the transfer of properties and the issue of \$125,000.00 of common stock, as more fully set forth 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 the transfer of the aforesaid properties should be granted as herein provided, and that the issue of \$80,000.00 of stock is reasonably required for the purpose specified herein, which purpose is not in whole or in part reasonably chargeable to operating expenses or to income and that this application, insofar as it involves the issue of \$45,000.00 of stock, should be denied without prejudice, therefore

IT IS HEREBY ORDERED as follows:-

1. J. M. Hotchkiss and Hobbs, Wall & Co. may, on or before October 1, 1929, transfer the properties described in this application to the Public Utilities California Corporation.
2. Public Utilities California Corporation may acquire and operate such properties and may issue at not less than par on or before October 1, 1929, not exceeding \$80,000.00 of its capital stock in payment for such properties, provided that the transfer of said properties is made free and clear of all indebtedness, except accrued

taxes not yet due.

3. This application insofar as it involves the issue of \$45,000.00 of stock is hereby denied without prejudice.
4. Public Utilities California Corporation in recording on its books of account the purchase of the properties herein authorized to be transferred, may charge to its fixed capital accounts not exceeding \$100,065.00 plus the cost of additions and betterments since December 31, 1928 and not covered by the agreement of December 17, 1928. If it pays for such properties more than \$80,000.00, it must charge such excess purchase price to its corporate surplus account.
5. Public Utilities California Corporation shall file with the Railroad Commission within thirty (30) days after the acquisition of the properties herein referred to, a certified copy of the deed or deeds of conveyance under which it acquires and holds title to said properties; a statement showing the exact date on which it acquired such properties and a verified report of the issue of such stock as is required by the Railroad Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.
6. J. M. Hotchkiss Electric Company shall file with the Railroad Commission within sixty (60) days after

the transfer of its properties a report covering its operations from January 1, 1929 to the date of such transfer, such report to be filed on the regular annual report form prescribed by this Commission.

7. The amount of stock herein authorized to be issued shall not be urged before this Commission or other public body or court as a measure of the value of the aforesaid properties for any purpose, except the transfer herein authorized.
8. The authority herein granted shall become effective ten (10) days after the date hereof.

DAIED at San Francisco, California, this 29th
day of May, 1929.

Thos D. Lott
C. Scammy
Edmund C. ...
Leon ...
...
Commissioners.