

LBM

Decision No. 21685.

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 authorizing applicant to )  
acquire upon the terms and conditions, )  
in this application set forth, all of )  
the issued and outstanding shares of )  
the capital stock of Snow Mountain )  
Water and Power Company, etc. )

ORIGINAL

Application No. 15962

C. P. Cutten, for applicant.

BY THE COMMISSION:

OPINION

In this application the Railroad Commission is asked to authorize Pacific Gas and Electric Company to acquire and hold all of the issued and outstanding stock of Snow Mountain Water and Power Company, to authorize Pacific Gas and Electric Company to issue to the stockholders of Snow Mountain Water and Power Company, on the terms set forth in the offer filed in this proceeding as Exhibit "A", 26,913-1/3 shares of its common capital stock of the aggregate par value of \$672,833.33-1/3. Pacific Gas and Electric Company further asks that it be permitted to use \$134,566.67 of cash which it may receive through the issue of 2,446.66 shares of its common stock to the stockholders of Snow Mountain Water and Power Company, for the purpose of reimbursing its treasury, in part, on account of capital expenditures of \$12,932,236.24 made prior to June 1, 1929 and/or to pay, in part, the cost of additions, extensions, betterments and im-

provements to its facilities and to the facilities of Mt. Shasta Power Corporation shown in Exhibits "C", "D", "E" and "F" in Application No. 15935.

It is of record that Snow Mountain Water and Power Company has an authorized stock issue of \$10,000,000.00 divided into \$1,500,000.00 of six percent cumulative preferred stock and \$8,500,000.00 of common stock. As of July 31, 1929, \$1,500,000.00 of the company's preferred stock and \$4,300,000.00 of its common stock were outstanding. No dividends have ever been paid on any of the company's outstanding stock.

The assets and liabilities of Snow Mountain Water and Power Company, as of July 31, 1929, are reported in Exhibit No. 2 as follows:-

| <u>ASSETS</u>   |                        |
|---|------------------------|
| Production capital . . . . .                                | \$7,495,017.04         |
| Transmission capital . . . . .                              | 526,303.72             |
| Distribution capital . . . . .                              | 14.91                  |
| General capital . . . . .                                   | 21,643.92              |
| Preliminary expenditures on contemplated projects . . . . . | 40,289.70              |
| Cash and bank balances . . . . .                            | 7,378.03               |
| Accounts receivable . . . . .                               | 27,379.81              |
| Unamortized debt discount and expense . . . . .             | 33,349.12              |
| Discount on capital stock . . . . .                         | 375,000.00             |
| Miscellaneous deferred debits . . . . .                     | 678.15                 |
| TOTAL ASSETS.....   | <u>\$8,527,054.40</u>  |
| <u>LIABILITIES</u>  |                        |
| Common stock outstanding . . . . .                          | \$4,300,000.00         |
| Assessment on common stock . . . . .                        | 559,000.00             |
| Preferred stock . . . . .                                   | 1,500,000.00           |
| First mortgage 5% bonds . . . . .                           | 956,000.00             |
| Notes payable . . . . .                                     | 448,000.00             |
| Accounts payable . . . . .                                  | 15,500.00              |
| Interest payable . . . . .                                  | 51,786.97              |
| Depreciation reserve . . . . .                              | 687,230.48             |
| Surplus . . . . .   | 9,536.95               |
| TOTAL LIABILITIES....                                       | <u>\$ 8,527,054.40</u> |

While the company in its balance sheet shows fixed capital of \$8,083,269.29, in Exhibit No. 4 the historical cost of the fixed capital is reported at \$4,006,659.48. The net value of the stock,

after reducing the assets to actual cash, on this basis is as follows;-

|   |                   |                       |
|---|-------------------|-----------------------|
| Fixed assets . . . . .                          | \$4,006,659.48    |                       |
| Less depreciation to July 31,<br>1929 . . . . . | <u>687,230.48</u> | \$3,319,429.00        |
| Current assets and deferred debits . . .        |                   | <u>35,435.99</u>      |
|   |                   | \$3,354,864.99        |
| <u>LESS:</u>                                    |                   |                       |
| Long term liabilities-bonds                     | \$956,000.00      |                       |
| Notes payable . . . . .                         | 448,000.00        |                       |
| Accounts payable . . . . .                      | <u>67,286.97</u>  | \$1,471,286.97        |
| Amount available for stock.....                 |                   | <u>\$1,883,578.02</u> |

The Snow Mountain Water and Power Company is a public utility engaged in the business of producing, generating, transmitting, delivering and selling electric energy and, to a limited extent, supplies water to reclamation districts. The company is primarily engaged in the business of furnishing and supplying electric energy to other public utility companies, which companies in turn distribute the energy to consumers of electric light, heat and power and other lawful purposes, and also supplies electric energy to Ukiah, Mendocino County, and to the Mendocino State Hospital. The company sells electric energy to the Central Mendocino County Power Company, Great Western Power Company of California, Napa Valley Electric Power Company and to the Pacific Gas and Electric Company. The Pacific Gas and Electric Company and California Telephone and Light Company, whose properties are now owned by Pacific Gas and Electric Company, acquired during 1928 about eighty-five percent of the electric energy sold by the Snow Mountain Water and Power Company.

Under date of September 12, 1929, Pacific Gas and Electric Company, subject to the approval of the Railroad Commission of the State of California and subject to certain other conditions, made an offer to the Board of Directors and to the stockholders of Snow Mountain Water and Power Company to acquire all of the issued and out-

standing stock of Snow Mountain Water and Power Company and to issue shares of applicant's common stock in exchange therefor. A copy of the offer is filed in this proceeding as Exhibit "A". The Pacific Gas and Electric Company agrees to issue in exchange for each share of preferred stock of Snow Mountain Water and Power Company  $.86\frac{2}{3}$  of a share of its common stock, and for each share of common stock  $.26\frac{2}{3}$  of a share of its common stock, and for each payment of \$55.00 made by any of the stockholders of Snow Mountain Water and Power Company it will issue one share of its common stock. According to the testimony of E.W.Hodges, Comptroller for the Pacific Gas and Electric Company, the owners of ninety-eight and six-tenths percent of the outstanding stock of Snow Mountain Water and Power Company have to date accepted the Pacific Gas and Electric Company's offer. If the offer of applicant is accepted by all the stockholders of Snow Mountain Water and Power Company, applicant will issue to such stockholders 24,466.67 shares in exchange for their stock and sell to them 2,446.66 shares at \$55.00 per share. From the sale of the 2,446.66 shares applicant would realize \$134,566.30. This cash applicant asks permission to use for the purposes indicated on page one of this opinion.

It should be noted that this application does not involve the transfer of any of the properties of Snow Mountain Water and Power Company. However, it appears that the company's properties will be operated under the supervision of Pacific Gas and Electric Company. T. R. George, Engineer of Electrical Operations of the Pacific Gas and Electric Company, testified that certain advantages should result from the ownership by Pacific Gas and Electric Company of the system of the Snow Mountain Water and Power Company. If applicant owns all of the outstanding stock of Snow Mountain Water and Power Company, it can virtually disregard the contractual relations between it and Snow Mountain Water and Power Company and operate the system of Snow

Mountain to fit more closely into the system of Pacific Gas and Electric Company. Moreover, it is possible to increase the efficiency of the plant at Potter Valley and thereby increase the output of the Snow Mountain Water and Power Company system. He further testified that savings could be effected by the transfer of employees, that it would not be essential to maintain a duplicate office field force, and that the field supervision could be taken care of through the existing organization of the Pacific Gas and Electric Company.

Mr. E. W. Hodges, Comptroller of the Pacific Gas and Electric Company, testified that in his opinion the net income of the Snow Mountain Water and Power Company for the year ending July 31, 1929, would have been approximately \$75,000.00, instead of \$39,497.52, had the Pacific Gas and Electric Company and the Snow Mountain Water and Power Company been operated as one system. He further testified that the net income available for dividends of the Snow Mountain Water and Power Company should be in excess of twelve percent on the \$611,666.75 par value of Pacific Gas and Electric Company common stock issued in exchange therefor.

While the order herein will permit Pacific Gas and Electric Company to purchase the issued and outstanding stock of Snow Mountain Water and Power Company, it should be understood by the purchaser that we have made no determination of the amount of such purchase price which may be charged to fixed capital accounts at the time the properties of Snow Mountain Water and Power Company may be transferred to Pacific Gas and Electric Company. As stated above, the transfer of the properties of Snow Mountain Water and Power Company is not involved in this proceeding.

#### ORDER

Pacific Gas and Electric Company having asked permission to acquire and hold all of the issued and outstanding stock of Snow

and Power  
Mountain Water/Company, to issue 26,913-1/3 shares of its common capital stock and to use \$134,566.67 of cash which it may acquire through the issue of 2,446-1/3 of said shares of common stock, a public hearing having been held before Examiner Fankhauser, and the Commission being of the opinion that the issue of the stock herein authorized is reasonably necessary for the purposes hereinafter stated, that the money, property or labor to be procured or paid for by the issue of such stock is reasonably required by applicant, and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expense or to income, and that this application should be granted as herein provided, therefore,

IT IS HEREBY ORDERED as follows;-

1. Pacific Gas and Electric Company may acquire and hold all of the issued and outstanding stock of Snow Mountain Water and Power Company, such stock consisting of not exceeding \$1,500,000.00 of six percent cumulative preferred stock and of not exceeding \$4,300,000.00 of common stock.
2. Pacific Gas and Electric Company may issue to the stockholders of Snow Mountain Water and Power Company on the terms set forth in the offer filed in this proceeding as Exhibit "A", 26,913-1/3 shares of its common capital stock of the par value of \$25.00 each and of the aggregate par value of \$672,833.33-1/3.
3. Pacific Gas and Electric Company may use \$134,566.67 of cash which it may receive as part consideration specified in said offer to reimburse its treasury, in part, on account of capital expenditures of \$12,932,236.24 made prior to June 1, 1929, and/or to pay, in part, the cost of additions, extensions, betterments and improvements to its facilities and to the facilities of Mt. Shasta Power

Corporation, as shown in Exhibits "C", "D", "E" and "F" in Application No. 15935.

4. Until such time as Pacific Gas and Electric Company has acquired all of the outstanding stock of Snow Mountain Water and Power Company and has expended the aforementioned cash, it shall file with the Commission monthly reports showing the number of shares of stock of Snow Mountain Water and Power Company acquired during the month covered by the report, the number of shares of stock issued in exchange therefor, the names of the persons or corporations to whom such shares were issued, the amount of cash received and the purposes for which such cash was expended, said monthly reports to be filed within twenty days after the last day of the month, for which a report must be filed.

5. The authority herein granted will become effective upon the date hereof.

DATED at San Francisco, California, this 17<sup>th</sup> day of October, 1929.

Paul D. Lott  
C. J. Seaver  
Wm. C. ...  
Leon ...  
W. H. ...

Commissioners.