

Decision No. 22038

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
NOVATO UTILITIES 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, assign, transfer )  
and convey all of its properties to )  
the latter, pursuant to a certain )  
agreement entered into by applicants )  
under date of December 6, 1929. )

Application No. 16161

C. P. Cutten, for applicants.

LOUTFIT, COMMISSIONER:

O P I N I O N

In the above entitled matter the Railroad Commission is asked to make its order:-

1. Granting and conferring upon Novato Utilities Company all necessary permission and authority to sell, assign, transfer and convey to Pacific Gas and Electric Company, all of the properties which the former has agreed to sell, assign, transfer and convey unto the latter, pursuant to the provisions of the within mentioned agreement dated December 6, 1929;
2. Authorizing Novato Utilities Company, upon selling, assigning, transferring and conveying to Pacific Gas and Electric Company, the properties mentioned in this application, to cease furnishing and supplying electric service in the territory in which said Novato Utilities Company is or may be furnishing and/or supplying electric service by means of

the said properties; and

3. Authorizing Pacific Gas and Electric Company to do whatsoever may be necessary or proper for the full and complete performance by it of its covenants and promises contained in said agreement dated December 6, 1929.

Novato Utilities Company is engaged in the business of distributing and selling electric energy for light, heat and power purposes in and about the Town of Novato, Marin County. The application sets forth that Pacific Gas and Electric Company is the absolute owner, both at law and in equity, of all the issued and outstanding shares of the capital stock of Novato Utilities Company, amounting in par value to \$50,000.00, except five shares (par value \$50.00), which are held by members of the Board of Directors of Novato Utilities Company, but which are in fact held in trust by said members for the use and benefit of Pacific Gas and Electric Company. The record shows that Pacific Gas and Electric Company acquired such stock pursuant to authority granted by the Commission in Decision No. 20395, dated October 27, 1928, in exchange for \$100,000.00 par value of its common capital stock.

It appears that Pacific Gas and Electric Company since acquiring the stock of Novato Utilities Company has placed its own schedules of rates into effect in Novato and has controlled the operation of the properties. It now proposes to acquire title to the properties and merge them with its own, alleging in this connection that the operation thereof as an integral part of its system will be in the public interest and for the benefit of service to the public. It might be noted at this point that no opposition to the transfer has been made to the Commission.

To effect the transaction, applicants, under date of December 6, 1929, entered into an agreement, a copy of which is filed as Exhibit "A", whereby Novato Utilities Company agreed to

transfer all its properties of every kind and nature to Pacific Gas and Electric Company, and the latter company, in consideration, agreed to pay the sum of \$100,000.00 at any time after the date of delivery of the deed conveying such properties, and to assume and pay all obligations of Novato Utilities Company. The record on this point indicates that following the completion of the program it is the intention of Pacific Gas and Electric Company to cause the dissolution of Novato Utilities Company.

In making the application, the companies have filed, as Exhibit "2", a balance sheet of Novato Utilities Company, dated November 30, 1929, showing its assets and liabilities as carried on the company's books on that date, as follows:-

ASSETS

Fixed capital in service.....	\$ 79,183.18	
Current assets:		
Cash.....	\$ 5,965.44	
Advances to Pacific Gas and Electric Company.....	41,565.48	
Accounts receivable.....	3,185.52	
Suspense.....	631.97	<u>51,348.41</u>
Total Assets.....		<u>\$130,531.59</u>

LIABILITIES

Capital stock.....	\$ 50,000.00	
Premium on stock.....	2,954.14	
Current liabilities:		
Notes payable.....	\$23,000.00	
Accounts payable.....	1,469.97	
Due J. W. Cain.....	300.00	24,770.08
Consumers advances for construction.....		1,943.01
Depreciation reserve.....		14,754.30
Surplus.....		<u>36,110.06</u>
Total Liabilities.....		<u>\$130,531.59</u>

Applicants allege that the figure at which the fixed capital in service is carried on the books of the selling company does not represent the total cost in that certain overhead items have been omitted. Taking such omitted items into consideration, applicants,

in Exhibit "7", estimate the historical cost of the properties, as of November 30, 1929, at \$86,207.95 and the historical cost less estimated accrued depreciation of \$11,162.71, at \$75,045.24.

An estimate of the historical cost of the properties was made also by Wm. M. McKay, one of the Commission's assistant engineers, who placed the historical cost as of October 12, 1928 at \$80,710.00 and the historical cost less depreciation at \$70,577.00. It is of record that between October 12, 1928 and November 30, 1929, expenditures for additions and betterments to the Novato system have aggregated \$4,010.00. This amount added to Mr. McKay's estimate would bring the Commission's engineer's estimates up to \$84,720.00 for the historical cost and to \$74,587.00 for the historical cost less depreciation, both figures closely approximating applicants' estimates.

Included among the properties to be transferred to Pacific Gas and Electric Company is a franchise granted by Ordinance No. 195 passed by the Board of Supervisors of Marin County on February 21, 1927, permitting the supplying of electricity to the inhabitants of Novato Township and adjacent territory. The record shows that it is the purchaser's intention, upon acquiring the Novato properties, as successor in interest to continue the operations under and in accordance with the terms of the franchise. A copy of the ordinance granting the franchise is filed in the proceeding.

In reviewing the record in this matter, it appears to me that public convenience and necessity will be served through the transfer of the properties as herein proposed and the operation thereof by Pacific Gas and Electric Company. It occurs to me, however, that Pacific Gas and Electric Company in recording the transaction on its books of account should charge to its fixed capital accounts not more than \$86,207.95, the estimated historical cost, and should credit to its reserve for accrued depreciation account the estimated

accrued depreciation of \$11,162.71, plus net additions between November 30, 1929 and the date of transfer of the properties. If the actual cost of the properties to the purchaser exceeds the estimated historical cost, less depreciation, and the current and other assets acquired, the company, in my opinion, should charge such excess to its profit and loss account.

I herewith submit the following form of order.

O R D E R

Application having been made to the Railroad Commission for an order authorizing the transfer of the properties of Novato Utilities Company to Pacific Gas and Electric Company, a public hearing having been held, and the Railroad Commission being of the opinion that public convenience and necessity will be served through the transfer of such properties and the operation thereof by Pacific Gas and Electric Company,

IT IS HEREBY ORDERED that Novato Utilities Company be, and it hereby is, authorized to sell and transfer, on or before June 30, 1930, to Pacific Gas and Electric Company, all of its properties subject to outstanding liabilities.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company be, and it hereby is, authorized to purchase and operate the aforesaid properties, to assume the payment of the outstanding liabilities of Novato Utilities Company on the date of the transfer, and to exercise the rights and privileges granted by the franchise to be acquired from the Novato Utilities Company and referred to in the foregoing opinion.

IT IS HEREBY FURTHER ORDERED that Novato Utilities Company be, and it hereby is, authorized, upon transfer of its properties

to Pacific Gas and Electric Company, to cease furnishing and supplying electric service in the territory in which it now is operating.

The authority herein granted is subject to the following conditions:

1. Pacific Gas and Electric Company, upon the acquisition of the properties referred to herein, may charge to its fixed capital accounts not exceeding \$86,207.95, plus the cost of additions and betterments between November 30, 1929 and the actual date of transfer of the properties. If it pays for the properties of Novato Utilities Company more than the \$86,207.95, less depreciation, and the cost of additions and betterments referred to and the current and other assets acquired, it must charge such excess to account No. 508, Miscellaneous Debits to Profit and Loss.

2. The authority herein granted is not to be construed as an approval of the purchase price referred to in the agreement by and between applicants herein, nor is such authority hereafter to be urged before this Commission or other public body or court as a measure of the value of said properties for any purpose other than this transfer.

3. Within sixty days after the acquisition of the aforesaid properties as herein authorized, Pacific Gas and Electric Company shall file with the Commission copies of the deeds or other instruments of conveyance under which it acquires and holds title thereto, a statement indicating the exact date upon which it acquired possession of the properties, and copies of the bookkeeping entries by which

it records the purchase price and the distribution thereof  
to fixed capital and other accounts.

4. The authority herein granted will become ef-  
fective upon the date hereof.

The foregoing opinion and order are hereby approved and  
ordered filed as the opinion and order of the Railroad Commission of  
the State of California.

DATED at San Francisco, California, this 14<sup>th</sup> day  
of January, 1930.

Chas. E. Emery  
Emery

Paul S. Lott

Commissioners.