

22432

Decision No. _____.

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, granting and conferring
 upon Pacific Gas and Electric Company,
 permission and authority to purchase
 shares of preferred capital stocks and
 common capital stocks of the GREAT
 WESTERN POWER COMPANY OF CALIFORNIA,
 a corporation, SAN JOAQUIN LIGHT AND
 POWER CORPORATION, a corporation,
 and MIDLAND COUNTIES PUBLIC SERVICE
 CORPORATION, a corporation, upon the
 terms and conditions of a certain agree-
 ment between PACIFIC GAS AND ELECTRIC
 COMPANY and THE NORTH AMERICAN COMPANY,
 a New Jersey corporation, filed herewith
 and made a part hereof; and authorizing
 PACIFIC GAS AND ELECTRIC COMPANY to in
 all respects consummate said agreement
 in accordance with its terms and condi-
 tions; and for a preliminary order
 authorizing applicant to enter into
 contracts for the acquisition of addi-
 tional stock and eventually of the
 properties and business of the corpora-
 tions mentioned in this petition, and to
 record the cost thereof in the manner
 herein set forth.

Application No. 16415

C. P. Cutten, W. B. Bosley and Chaffee E. Hall,
 for applicant;
 Preston Higgins, City Attorney, and C. Stanley
 Wood, Assistant City Attorney and
 Walter W. Cooper, Rate Engineer, for
 the City of Oakland; and for confer-
 ence of Central California Mayors;
 Rollin J. White, for H. H. Boomer, et al, Interveners;
 Hugh B. Bradford, City Attorney, for City of
 Sacramento;
 Alex. J. Ashen, Assistant District Attorney,
 for County of Sacramento.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked
 to make its order authorizing Pacific Gas and Electric Company to
 purchase, acquire and hold, the shares of capital stock which The

North American Company has agreed to cause to be sold, assigned and delivered to it under the terms and provisions of an agreement, dated March 29, 1930 and filed in this proceeding as Exhibit "E". Pacific Gas and Electric Company also asks authority to issue 1,825,000 full-paid shares of its common capital stock at the par value of \$25.00 per share, such stock to be issued and delivered to the Western Power Corporation as consideration for the performance by The North American Company of its covenants in said agreement of March 29, 1930,

Pacific Gas and Electric Company further asks authority to consummate in all respects said agreement of March 29, 1930, and to acquire additional stock of, and eventually the properties and business of Great Western Power Company of California, San Joaquin Light and Power Corporation and Midland Counties Public Service Corporation, and their respective subsidiaries, upon such reasonable terms and conditions as the Railroad Commission shall hereafter, upon due and proper application therefor, authorize and approve by supplemental order or orders. Applicant further asks the Commission to declare and find that it will be authorized to record upon its books, the cost of the acquisition of the properties and business of said Great Western Power Company of California, San Joaquin Light and Power Corporation and Midland Counties Public Service Corporation, and their respective subsidiaries, as and in the manner set forth in paragraph eighteen of the petition in this proceeding.

It appears from said agreement of March 29, 1930, which is an agreement between The North American Company and the Pacific Gas and Electric Company, that The North American Company will cause Western Power Corporation to sell, assign and deliver to Pacific Gas and Electric Company the following full-paid shares of stock;-

300,000 shares of common stock of Great Western Power Company of California,
897 shares of prior preferred capital stock of San Joaquin Light and Power Corporation,
1,462 shares of prior preferred Series A capital stock of the San Joaquin Light and Power Corporation,
45,159 shares of preferred Series A capital stock of San Joaquin Light and Power Corporation,
128,867 shares of common capital stock of San Joaquin Light and Power Corporation,
5 shares of preferred stock of Midland Counties Public Service Corporation,
10,000 shares of common stock of Midland Counties Public Service Corporation,

together with one share of preferred stock of California Electric Generating Company, and that it will cause Western Power Corporation to cancel the floating indebtedness of Great Western Power Company of California, hereinafter sometimes referred to as Great Western, of San Joaquin Light and Power Corporation, hereinafter sometimes referred to as San Joaquin, and of Midland Counties Public Service Corporation, hereinafter sometimes referred to as Midland Counties, payable to it as of January 31, 1930, amounting to \$19,180,776.76, in consideration of which the Pacific Gas and Electric Company will issue, sell and deliver to Western Power Corporation 1,225,000 full-paid shares of the common stock of Pacific Gas and Electric Company of the par value of \$25.00 per share. Any indebtedness payable to Western Power Corporation over and above the aforesaid \$19,180,776.76 by Great Western, San Joaquin and Midland Counties or either of them will be paid in cash with interest at six percent.

The agreement provides that Western Power Corporation shall receive for its own use, all cash dividends declared by Great Western, San Joaquin and Midland Counties and payable on March 31, 1930, and also a sum of money equivalent to dividends accrued to the date of delivery as follows:-

- a. On the common stock of Great Western Power Company of California at the rate of \$4.00 per share per annum from March 31, 1930.
- b. On the prior preferred capital stock of San Joaquin Light and Power Corporation at the rate of \$7.00 per share per annum from February 28, 1930.
- c. On prior preferred Series "A" capital stock of San Joaquin Light and Power Corporation at the rate of \$6.00 per share per annum, from February 28, 1930.
- d. On the preferred Series "A" capital stock of San Joaquin Light and Power Corporation at the rate of \$7.00 per share per annum from February 28, 1930.
- e. On the common capital stock of San Joaquin Light and Power Corporation at the rate of \$8.00 per share per annum from March 31, 1930.
- f. On the preferred stock of Midland Counties Public Service Corporation at the rate of \$7.00 per share per annum from March 31, 1930.
- g. On the common stock of Midland Counties Public Service Corporation at the rate of \$8.00 per share per annum from March 31, 1930.

less a sum of money equivalent to a dividend on the common stock of Pacific Gas and Electric Company deliverable to Western Power Corporation accrued from March 31, 1930 to the date of delivery of the stocks at the rate of \$2.00 per share per annum.

It appears of record that Western Power Corporation controls through stock ownership Great Western Power Company of California, San Joaquin Light and Power Corporation, and Midland Counties Public Service Corporation. Western Power Corporation in turn is controlled through stock ownership by The North American Company. It appears further from the petition in this proceeding that the acquisition of the stock which Western Power Corporation owns in Great Western Power Company of California, San Joaquin Light and Power Corporation and Midland Counties Public Service Corporation is the first step which the Pacific Gas and Electric Company is taking to acquire the properties of the three companies men-

tioned, and their respective subsidiaries. Applicant proposes to acquire additional stock of the companies mentioned and eventually the properties of said companies.

Great Western Power Company of California was organized on or about November 23, 1915 under and by virtue of the laws of the State of California. It either owns or controls, or controls through stock ownership, the following corporations:-

California Electric Generating Company
Central Oakland Light and Power Company
City Electric Company
Consolidated Electric Company
Consumers Light and Power Company
Feather River Power Company
Great Western Power Company
Napa Valley Electric Company
Western Canal Company

The Great Western is now, and it and its predecessors in interest for many years past have been, engaged in the public utility business of producing, generating, transmitting, delivering, furnishing and selling electric energy to the public in many cities and towns and other localities in northern and central California, and in the operation of steam heating systems in San Francisco and Oakland.

The property owned and/or used by the Great Western in the conduct of its public utility business is reported by applicant to include two hydro and four steam electric generating systems, and the generating plants of its subsidiaries, all having a generating capacity in excess of 249,400 k.w.; an extensive electric transmission system, which includes two three-phase circuits operated at 100,000 volts, on steel towers from the Las Plumas plant, 154 miles, to Oakland; a 165,000 volt single circuit on steel towers about 197 miles in length from the Caribou plant to the Golden Gate sub-station; also a 165,000 volt line on steel towers from Buck's

Creek plant to Brighton sub-station, a distance of 99 miles; also a tie line 103 miles in length known as the Brighton-Wilson tie line, being a double circuit line with one circuit strung, operating 165,000 volts (constructed for 220,000 volts) connecting the transmission system of Great Western with the electric transmission system of the San Joaquin, and enabling these two companies to interchange power at all seasons; also a storage reservoir known as Lake Almanor, situate on the north fork of the Feather River, Plumas County, at an elevation of 4,500 feet and having a capacity of about 1,300,000 acre feet; also extensive distribution systems and facilities including meters, services, transformers and other electrical appliances furnishing electrical service throughout the territory supplied by Great Western; and also water rights, land, machinery, appliances, franchises and goodwill, all being used and enjoyed in connection with the operation of its properties and in carrying on the business to which reference has been made.

San Joaquin Light and Power Corporation was organized on or about July 19, 1910 under and by virtue of the laws of the State of California. It controls through stock ownership the Bakersfield and Kern Electric Railway Company and the Valley Electrical Supply Company. The San Joaquin owns and operates an electrical generating, transmission and distribution system in a portion of the San Joaquin Valley. The principal cities and towns where it operates are; viz, Fresno, Bakersfield, Merced, Madera, Selma, Hanford, Sanger, Reedley and Dinuba. The company also distributes gas in Bakersfield, Merced and Selma, and furnishes water service in Selma.

The property owned and/or used by the San Joaquin is reported to consist of ten hydro and three steam electric generating plants, having a total capacity of 164,105 k.w., of which 52,000 k.w. are in steam plants; the water for six of the hydro plants on the

San Joaquin is impounded in the Crane Valley reservoir, having a storage capacity of 45,000 acre feet; also an extensive high tension transmission system, 523 circuit miles of which are operated at 110,000 volts; also extensive distribution systems and facilities, including meters, services, transformers and other electric appliances furnishing electric service throughout the territory supplied by the company; water rights, lands, buildings, machinery, appliances, franchises, including good-will, used and enjoyed in connection with the operation of its properties.

The Bakersfield and Kern Electric Railway Company, controlled through stock ownership by the San Joaquin, is engaged in the public utility business of furnishing electric railway and bus service to the City of Bakersfield and vicinity. It owns 10-1/2 single track miles of standard gauge lines, together with eleven cars and five busses.

The Valley Electrical Supply Company, controlled through stock ownership by the San Joaquin, carries on an electrical merchandising business in the territory served by the San Joaquin Light and Power Corporation and the Midland Counties Public Service Corporation.

Midland Counties Public Service Corporation was organized on or about November 25, 1909 under and by virtue of the laws of the State of California. It is engaged in the public utility business of furnishing and distributing electric energy for light, heat, power and other legal purposes in the western portion of Fresno County, the southern part of Monterey County, the entire county of San Luis Obispo, and the northern portion of Santa Barbara County. The principal cities and towns served with electricity by the Midland Coun-

ties are; San Luis Obispo, Santa Maria, Arroyo Grande, Coalinga, San Miguel and Paso Robles.

It owns and operates, according to the record, twelve sub-stations, about 194 circuit miles of 66,000 volt transmission lines, a distribution system and facilities, including meters, services, transformers and other electrical appliances, within the territory served, lands, buildings and machinery, franchises, including good-will, used and enjoyed in connection with the operation of its properties, and carrying on its business. Midland Counties Public Service Corporation obtains the electric energy which it distributes and sells to its consumers from the San Joaquin Light and Power Corporation.

The companies whose control Pacific Gas and Electric Company seeks permission to acquire, had on January 31, 1930, according to Exhibit No. 5, \$89,903,350.00 of bonds and notes outstanding and in the hands of the public. Of these bonds, \$51,591,350.00 were issued by Great Western and its subsidiaries, \$35,727,000.00 by San Joaquin and \$2,425,000.00 by Midland Counties. It appears that of the bonds outstanding, \$26,621,200.00 bear a nominal interest rate of six percent, \$13,231,000.00 of five and one-half percent, and \$49,951,150.00, five percent.

As of January 31, 1930, the aforementioned companies had outstanding and in the hands of the public, \$86,267,900.00 par value of stocks divided into \$42,267,900.00 of preferred and \$44,000,000.00 of common stock. The outstanding stocks are issued by the different companies as follows:

NAME OF COMPANY	PREPARED STOCKS	COMMON STOCK
Great Western	\$21,297,200.	\$30,000,000.
San Joaquin	20,970,200.	13,000,000.
Midland Counties	500.	1,000,000.
TOTAL.....	\$42,267,900.	\$44,000,000.

Of the outstanding preferred stocks, \$32,212,200.00 carry a seven percent cumulative dividend and \$10,055,700.00 a six percent cumulative dividend.

In addition, the several companies were, on January 31, 1930, indebted to Western Power Corporation in the sum of \$19,180,776.76.

Upon the consummation of the aforesaid agreement, dated March 29, 1930, the ownership of \$48,639,000.00 of stock of Great Western, San Joaquin and Midland Counties will be transferred to Pacific Gas and Electric Company, and \$19,180,776.76 of indebtedness of said companies will be cancelled. To bring about these results, the Pacific Gas and Electric Company will issue \$45,625,000.00 of its common stock. Through the transaction, the Pacific Gas and Electric Company will acquire about 62 percent of the outstanding stock of Great Western, about 52 percent of the outstanding stock of San Joaquin and all the outstanding stock of Midland Counties.

Applicant has submitted an estimate of the historical cost and the reproduction cost of the properties whose control it seeks to acquire, as well as the cost of its own properties. The view we take of this proceeding makes it unnecessary to analyze the cost figures submitted.

Great Western in its 1929 annual report shows operating revenues of \$10,117,877.28; San Joaquin, \$11,041,709.03; and Midland Counties, \$1,677,575.87.

It is of record that The North American Company, based on the 1929 earnings of the properties, whose control applicant seeks to acquire, was in a position to take from the properties, or receive from the properties by way of dividends on preferred stock, by way of interest on advances, and with the surplus available for

common stock, a total of \$4,415,000.00. This is \$765,000.00 in excess of the dividends which the Pacific Gas and Electric Company would pay at its regular rate of \$2.00 per share on the 1,825,000 shares of stock which it proposes to issue to The North American Company. In arriving at this figure, no consideration was given to the saving that can be effected in operating expenses if the properties of the Great Western, of the San Joaquin and of the Midland Counties are consolidated with the properties of the Pacific Gas and Electric Company, which saving is estimated at from \$1,000,000. to \$1,500,000. per annum. Neither was any consideration given to the saving which can be effected by retiring the outstanding securities of the Great Western, San Joaquin or Midland Counties or the saving that will be effected because of doing away with duplicate construction expenditures in the future, all of which will be substantial in amount. A. F. Hockenbeamer, president of the Pacific Gas and Electric Company, upon cross examination, hesitated to state when the estimated saving, or what part thereof, would be transformed into lower rates. He took the position that this was a matter which rested entirely with the Commission. Applicant, however, in its petition, sets forth the reasons why the acquisition of the control of Great Western, San Joaquin and Midland Counties by it is for the benefit of the public. It alleges that the acquisition by applicant of the shares of the capital stock of the public utility corporations hereinbefore mentioned, will make possible the control, administration and operation of the properties and business of the corporations by a single managerial operation and operative personnel, with resultant economy in administration and operation and in a reduction in the cost of service through the elimination of unnecessary duplication of effort and expense. It further alleges that at

the present time the hydroelectric and steam generating plants of Great Western Power Company of California and San Joaquin Light and Power Corporation are operated independently of those belonging to Pacific Gas and Electric Company and without reference to, or consideration of, water conditions or other important factors obtaining on its system; that through the acquisition of the control of the corporations it will be possible to interconnect said systems with the Pacific Gas and Electric Company's hydroelectric and steam generating plants and transmission systems; that under a unified management the operation and control of the generating plants and transmission systems of the aforementioned companies would be controlled by a single head and that better use would be made of water available for generation of electric energy, and the steam plants and transmission systems would be more effectively operated, all of which would result in reductions in the present cost of production and distribution, and a greater insurance of continuous and uninterrupted service to the consumers in the several corporations; that Great Western Power Company of California has valuable water rights on the North Fork of the Feather River sufficient for the economical development of 475,000 k.w.; that the San Joaquin Light and Power Corporation has undeveloped water rights on the North and West Forks of the Kings River, approximating 350,000 k.w. and that the Pacific Gas and Electric Company is also in possession of valuable water rights on the Pit River and other locations capable of developing large quantities of electrical energy. Under a single control and management it will be possible, according to the petition in this proceeding, to develop the water rights and other properties of the several corporations in a most comprehensive and effective manner and thereby make substantial saving in capital expenditures. A further reason why the granting of the application is in the public

interest, according to petitioner, is that the money for capital additions to, extensions of, and betterments upon, the aforesaid properties, if under the control and management of applicant, will be obtainable at a lower cost than that heretofore incurred by the several separate corporations.

It is of record, as stated before, that the purchase of the stock referred to is the first step in the plan of the acquisition by applicant of the properties of Great Western, San Joaquin and Midland Counties, and their respective subsidiaries. To facilitate the accomplishment of its purpose applicant asks that it be authorized from time to time to acquire additional stock of the San Joaquin Light and Power Corporation and Great Western Power Company of California and eventually the properties and business of San Joaquin, Great Western and Midland Counties and their respective subsidiaries, upon fair and reasonable terms. It further asks that the Commission in its order and/or decision to be made herein, declare that applicant will, upon acquiring the properties and business aforesaid, be authorized by an order of the Commission to record the cost of the acquisition of said properties and business upon its books by charging to capital accounts and current assets the full consideration which applicant shall have given for said properties and business.

There is nothing in the record to show on what terms applicant proposes to acquire additional stock, or what it intends to pay for the properties. While we believe that the consolidation of the properties should follow the acquisition of their control through stock ownership, we cannot on the record before us either authorize applicant to acquire additional stock, or to acquire the properties of the aforesaid companies or determine whether the cost of the properties to applicant may be charged to capital accounts and

current assets. It seems to us that these requests are all premature. These matters will be determined when properly before us. Unless facts are presented at the time which warrant a departure from past decisions of the Commission, such decisions will be adhered to and followed when we are called upon to decide what charges may be made to fixed capital accounts and current assets when Pacific Gas and Electric Company acquires the properties of Great Western, San Joaquin, Midland Counties and their respective subsidiaries.

In view of the fact that the order herein will be confined to the acquisition by applicant of the stocks mentioned in Exhibit "E", the issue of stock by applicant and matters collateral thereto, we believe the motion of the City Attorney of Oakland, that the Commission direct that a complete new valuation of the properties mentioned in this proceeding should be made, should be denied. Preparation of such a valuation is unnecessary for the purpose of this proceeding. By denying this motion we do not wish to imply that a valuation should be made in the event an application is filed with the Commission to transfer the properties of the aforementioned companies to applicant.

We have considered the petition of intervention by H.H. Boomer, et al, and believe that such petition should be denied, because the transfer of the properties of Feather River Power Company is not before us.

We are not making any findings at this time as to whether or not applicant should be permitted to acquire the properties of Great Western, San Joaquin, Midland Counties and their respective subsidiaries. It is expected that if applicant will acquire the control of said companies, it will go forward with the consolidation of the properties and that as it progresses with such consolidation, the necessary applications will from time to time be filed with the

Commission. It is apparent that many of the economies to which reference has been made can be put into effect prior to the complete merging of the properties and that the savings which so can be effected should, to a considerable extent at least, be transformed into lower rates. While witnesses for applicant did not commit themselves definitely on this matter, a reading of the petition and a study of the record clearly shows that the company commits itself to the policy that the public shall be benefitted directly through the acquisition of the stock and the purchase of the properties of the companies mentioned. If for any reason, applicant does not voluntarily reduce its rates because of savings which can be effected, the Commission will take such steps as it deems proper and necessary.

O R D E R

Pacific Gas and Electric Company, having requested permission to perform the acts referred to in the opinion which precedes this order, public hearings having been held and the Commission being of the opinion that this application should be granted as herein provided, that the money, property or labor to be procured or paid for by the issue of the stock herein authorized, is reasonably required by Pacific Gas and Electric Company for the purpose stated herein, and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:-

(1) Pacific Gas and Electric Company may acquire, on or before June 30, 1930, and hold, the following capital stock:-

300,000 shares of common stock of Great Western Power Company of California,
897 shares of prior preferred capital stock of San Joaquin Light and Power Corporation,
1,462 shares of prior preferred Series A capital stock of San Joaquin Light and Power Corporation,
45,159 shares of preferred Series A capital stock of San Joaquin Light and Power Corporation,
128,867 shares of common capital stock of San Joaquin Light and Power Corporation,
5 shares of preferred stock of Midland Counties Public Service Corporation,
10,000 shares of common stock of Midland Counties Public Service Corporation; and
1 share of preferred stock of California Electric Generating Company.

(2) Pacific Gas and Electric Company may issue and deliver on or before June 30, 1930, to Western Power Corporation as full-paid and for the purposes mentioned in the agreement dated March 29, 1930, filed in this proceeding as Exhibit "E", 1,825,000 shares of its common capital stock of the par value of \$25.00 per share and of the aggregate par value of \$45,625,000.00.

(3) Pacific Gas and Electric Company, if it acquires and issues the aforesaid stocks, may perform such further acts as may be necessary to consummate the agreement of March 29, 1930, filed in this proceeding as Exhibit "E", in accordance with its terms and conditions.

(4) Pacific Gas and Electric Company shall file with the Railroad Commission monthly reports such as are required by the Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

(5) The authority herein granted will become effective twenty days after the date hereof.

(6) The authority herein granted is upon condition that the consideration which the Pacific Gas and Electric Company has agreed to pay for the aforesaid stocks, or the consideration for which it has agreed to issue said 1,825,000 shares of its stock, shall not be urged before this Commission as fixing the cost or

value of the properties of any of the companies mentioned in the foregoing opinion for rate fixing, transfer, accounting or further security issue purposes.

(7) The request of Pacific Gas and Electric Company for permission to acquire additional stock and to acquire the properties and business of Great Western Power Company of California, San Joaquin Light and Power Corporation, Midland Counties Public Service Corporation, and their respective subsidiaries, and its further request that it be permitted to charge to its capital account and current assets the cost which it may pay for such properties, be, and they are hereby, dismissed without prejudice.

DATED at San Francisco, California, this 14th day of May, 1930.

C. L. Seavey
Ernest B. [unclear]
Leah C. Whitwell
Thos. G. [unclear]

Commissioners.

I concur in the order. As the result of the transaction authorized (and further steps proposed consequent thereon) outstanding capitalization and floating indebtedness will be reduced by approximately \$22,000,000. No heavier but, if anything, lighter dividend and interest requirements will prevail. In addition, it is clearly established that under the consolidation there will be operating economies of from \$1,000,000.00 to \$1,500,000.00 annually.

Consumers should benefit by this. The application is so premised; the testimony of Mr. Hookenbeamer, President of applicant Company, points to it. Should the applicant fail voluntarily to do that which it should do and which it has represented it would do and transform these economies, when realized, into lower rates, then, unless the system of regulation breaks down, this Commission, representing the power and authority of the State, should be able to see that the consumers get from the consolidation such advantages as they are entitled to.



Commissioner.