

Decision No. 22583

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 OAKDALE GAS 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 April 25, 1930.)

ORIGINAL

Application No. 16505

C. P. Cutten and R. W. DuVal, by R. W. DuVal,
 for applicants.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked to enter its order authorizing Oakdale Gas Company to sell, assign, transfer and convey to the Pacific Gas and Electric Company all of the properties which it has agreed to sell, assign, transfer and convey under the terms of the agreement dated April 25, 1930 and filed in this proceeding as Exhibit "A". The Commission is also asked to authorize Oakdale Gas Company upon selling, assigning, transferring and conveying its properties to Pacific Gas and Electric Company to cease furnishing and supplying gas service in the territory in which the Oakdale Gas Company is or may be furnishing and/or supplying gas service by means of the aforesaid properties, and to authorize the Pacific Gas and Electric Company to do whatsoever may be necessary or proper to perform the covenants and promises contained in said agreement dated April 25, 1930.

The Oakdale Gas Company, hereinafter sometimes

referred to as the Oakdale Company, is a corporation organized and existing under and by virtue of the laws of the State of California. It is engaged in the public utility business of generating, distributing and selling artificial gas for light, heat and power purposes in the City of Oakdale and in the unincorporated town of Riverbank and the districts adjacent to the highway between said communities. All of the company's outstanding stock, namely, \$23,000.00 par value, has been acquired by the Pacific Gas and Electric Company under authority granted by Decision No. 20748, dated February 4, 1929, in Application No. 15275. Pacific Gas and Electric Company under the agreement dated April 25, 1930 (Exhibit "A") has agreed to pay for the properties of the Oakdale Gas Company \$40,000.00 and to assume and pay all of the existing obligations of the Oakdale Gas Company.

As of April 30, 1930, the Oakdale Gas Company reports assets and liabilities (Exhibit No. 1) as follows:

ASSETS

Organization expense.....	\$ 1,520.50
Fixed assets.....	74,590.65
Current assets.....	7,274.93
Discount on capital stock.....	<u>2,023.09</u>
Total Assets.....	<u>\$85,409.17</u>

LIABILITIES

Capital stock.....	\$23,000.00
Advances from Pacific Gas & Electric Co.....	54,370.67
Current liabilities.....	1,110.66
Reserve for accrued depreciation.....	12,031.10
Deficit.....	<u>5,103.26</u>
Total Liabilities.....	<u>\$85,409.17</u>

For the year ending April 30, 1930, the Oakdale Gas Company in Exhibit No. 2 reports operating revenues of \$18,354.51. Its operating expenses, including taxes and depreciation, are reported at \$16,886.92, leaving net operating revenue of \$1,467.59. Miscellaneous

income is reported at \$47.23, which, added to the net operating revenue, results in a gross income of \$1,514.82.

In Exhibit No. 3 applicants report that Pacific Gas and Electric Company will expend in acquiring the properties of Oakdale Gas Company, under the terms of the agreement dated April 25, 1930, \$106,173.19. This amount is \$29,670.43 in excess of the assets of the Oakdale Gas Company, as they appear on the books of that company, \$35,952.52 in excess of the estimated historical cost of the properties as reported in Exhibit No. 5, and \$6,040.52 in excess of the reproduction cost new less depreciation of the properties as reported in Exhibit No. 6.

Subsequent to the hearing, Pacific Gas and Electric Company submitted a statement to the effect that it believes it should be permitted to charge the full cost of acquiring the Oakdale Company's properties to capital account and fixed assets and that, if it is permitted to do so, it will charge to fixed capital accounts the estimated reproduction cost new of the properties. If, however, the Commission should limit the charge to fixed capital accounts to the historical cost of the Oakdale Company's properties, the purchaser desires to use the estimated historical cost of the properties rather than the cost as shown by the books of the Oakdale Company because such books, in the opinion of applicants, do not properly reflect the cost of the properties.

The uniform system of accounts prescribed by the Commission is predicated on the theory that the books of a utility should show the cost of public utility properties. Not the cost to a purchasing company, but the cost to the company which constructs the properties. True, Account 398, "Cost of plant and equipment purchased," provides that unless otherwise ordered or directed by the Commission, there shall be included in this account the cost to

the corporation of any plant purchased as a whole. But, this account also provides that it shall be used only as a clearing account in which temporarily to carry the cost of plant and equipment purchased for a lump sum until such time as a plan for making distribution to the primary account appropriate to the property is approved by the Commission.

The fact that the Pacific Gas and Electric Company has agreed to pay \$106,173.19 for properties which have an estimated historical cost less depreciation of \$70,220.89, or an estimated reproduction cost less depreciation of \$100,132.89, does not change the cost of the properties to the company which constructed the same. It simply means that in effect the stockholders of Oakdale Gas Company sold their stock at a profit. There is no warrant to add such profit to the cost of the properties, as such term is used in the system of accounts prescribed by this Commission. If the Pacific Gas and Electric Company acquires the properties of Oakdale Gas Company, it may charge to fixed capital accounts, as of April 30, 1930, \$84,151.00, offset by a reserve for accrued depreciation of \$21,283.00. The fixed capital less accrued depreciation is \$62,868.00. Adding to this the current assets (\$7,352.89) makes a total of \$70,220.89. If the Pacific Gas and Electric Company pays more for the properties of the Oakdale Company than \$70,220.89, plus the net cost of additions and betterments and net current assets acquired by the Oakdale Company between April 30, 1930 and the date the properties are transferred, it must charge such excess to Account 508, "Miscellaneous debits to profit and loss."

ORDER

A public hearing having been held in this matter before Examiner Fankhauser and the Commission having considered the

testimony submitted and being of the opinion that this application should be granted, subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED, that Oakdale Gas Company may, on or before September 1, 1930, sell and transfer to Pacific Gas and Electric Company all of the properties which it has agreed to sell in the agreement dated April 25, 1930 and filed in this proceeding as Exhibit "A".

IT IS HEREBY FURTHER ORDERED, that upon the acquisition of the aforesaid properties by Pacific Gas and Electric Company, the Oakdale Gas Company may cease furnishing and supplying gas service in the territory in which said Oakdale Gas Company is or may be furnishing and/or supplying gas service by means of said properties.

IT IS HEREBY FURTHER ORDERED, that if Pacific Gas and Electric Company acquires the aforesaid properties of Oakdale Gas Company it may charge to fixed capital and other asset accounts, as of April 30, 1930, a sum of not more than exceeding \$91,503.89, offset by a reserve for accrued depreciation of \$21,283.00 and other appropriate liability accounts. If the Pacific Gas and Electric Company pays, as of April 30, 1930, more for the aforesaid properties than \$70,220.89, it must charge such excess to Account 508, "Miscellaneous deductions from surplus." The amounts mentioned in this paragraph should be adjusted because of the changes that may be made in the property of Oakdale Gas Company between April 30, 1930 and the date of the transfer of the properties.

IT IS HEREBY FURTHER ORDERED, that within sixty days after acquiring the aforesaid properties of Oakdale Gas Company, the Pacific Gas and Electric Company shall file:

(1) A copy of the instrument under which it acquired title to said properties.

(2) A copy of all book entries to record said

purchase and the distribution of the charges to
primary fixed capital and other accounts.

IT IS HEREBY FURTHER ORDERED, that this order shall
become effective ten days after the date hereof.

DATED at San Francisco, California, this 25th day
of June, 1930.

C. L. Keenan
Ernest J. ...
Thos. J. ...

Commissioners.