

Decision No. 22802.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SNOW MOUNTAIN WATER AND POWER 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 assets and properties to the latter, pursuant to a certain agreement entered into by applicants under date of January 23, 1930.

ORIGINAL

Application No. 16305

C. P. Cutten, for applicants.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked to enter its order granting and conferring upon Snow Mountain Water and Power Company all necessary permission and authority to sell, assign, transfer and convey to Pacific Gas and Electric Company all of the properties which it has agreed to sell under the agreement dated January 23, 1930 and filed in this proceeding as Exhibit "A". The Commission is further asked to authorize Snow Mountain Water and Power Company, upon the sale and conveyance of its properties to Pacific Gas and Electric Company, to cease furnishing and supplying electric and water service in the territory now served by it and to authorize 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 of February 23, 1930.

By Decision No. 21686, dated October 17, 1929, in Application No. 15962, the Commission authorized Pacific Gas and Electric Company to acquire all of the outstanding capital stock of Snow Mountain Water and Power Company, 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. In payment for such stock, plus \$134,566.67 of cash, the Commission authorized Pacific Gas and Electric Company to issue 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.

Under the agreement dated January 23, 1930, Snow Mountain Water and Power Company, upon being authorized by the Commission to do so, will sell, assign, transfer and convey to Pacific Gas and Electric Company, all and singular, its assets and properties of every kind and character for the consideration of \$611,666.50, and the assumption by Pacific Gas and Electric Company of all existing obligations of Snow Mountain Water and Power Company, including the principal and interest on all bonds issued by the vendor and outstanding at the date the properties are transferred.

It is of record that Pacific Gas and Electric Company has acquired all of the outstanding stock of Snow Mountain Water and Power Company except five shares which are held by the members of the Board of Directors of Snow Mountain Water and Power Company, but which are, in fact, held in trust by said members for the use and benefit of Pacific Gas and Electric Company.

In Exhibit No. 1, Snow Mountain Water and Power Company reports its assets and liabilities as of March 31, 1930, as follows:-

<u>A S S E T S</u>	
Plants and properties . . . . .	\$8,089,803.05
Cash . . . . .	47,202.77
Accounts receivable . . . . .	11,584.34
Discount on preferred stock . . . . .	75,000.00
Deferred charges . . . . .	19,377.37
Unamortized debt discount . . . . .	\$30,028.55
Unadjusted suspense items- credit . . . . .	<u>10,711.18</u>
Total assets . . . . .	<u>\$8,242,967.53</u>

<u>L I A B I L I T I E S</u>	
Common capital stock . . . . .	\$4,300,000.00
Preferred capital stock . . . . .	1,500,000.00
Premium on capital stock-common . . . . .	259,000.00
Assessments . . . . .	\$559,000.00
Less-discount . . . . .	<u>300,000.00</u>
Funded debt . . . . .	942,000.00
Advances from Pacific Gas and Electric Co. . . . .	463,280.35
Interest accrued-not due . . . . .	11,775.00
Taxes accrued-not due . . . . .	8,752.87
Reserve for depreciation . . . . .	718,264.98
Surplus . . . . .	<u>39,894.33</u>
Total liabilities . . . . .	<u>\$8,242,967.53</u>

Reference will hereafter be made to the cost of the properties of Snow Mountain Water and Power Company. The bonds of that company bear interest at the rate of five percent per annum and mature on January 1, 1937.

For the twelve months ending March 31, 1930, the operating revenues of Snow Mountain Water and Power Company are reported at \$262,740.56. Its operating expenses, as reported in Exhibit No. 2, were \$99,440.66, leaving net operating revenue of \$163,299.90. To this is added miscellaneous income of \$10.41, resulting in a gross income of \$163,310.31 available for the payment of interest, amortization of debt discount and expense, depreciation, dividends and surplus. After appropriating \$53,840.68 of the gross income for

depreciation , \$73,394.98 for the payment of interest and \$4,457.52 for amortization of bond discount and expense, the company reports a surplus for the year of \$31,617.13.

In Exhibit No. 5, the estimated historical cost new of the properties of Snow Mountain Water and Power Company, as of December 31, 1929, is reported at \$4,569,221.00 and the historical cost less a proper depreciation reserve at \$4,064,430.00. These costs are segregated as follows:-

I T E M	: Historical Cost New	: Historical Cost Depreciated
Intangible capital . . . . .	\$ 34,740.00	\$ 34,740.00
Production capital-hydro . . . . .	3,609,982.00	3,233,470.00
Transmission capital . . . . .	392,791.00	314,423.00
Distribution capital . . . . .	55,660.00	31,306.00
General capital . . . . .	52,727.00	33,992.00
Total non-landed capital . . . . .	\$ 4,111,160.00	\$ 3,613,191.00
Landed capital production lands . . . . .	\$ 298,327.00	298,327.00
Electric transmission lands . . . . .	67,278.00	67,278.00
Electric distribution lands . . . . .	2,601.00	2,601.00
Electric general lands . . . . .	1,005.00	1,005.00
Total landed capital . . . . .	\$ 369,211.00	\$ 369,211.00
Total tangible fixed capital . . . . .	4,480,371.00	3,982,402.00
Total fixed capital . . . . .	4,515,111.00	4,017,142.00
Nonoperative properties-lands . . . . .	13,026.00	13,026.00
Preliminary expense on contemplated projects . . . . .	28,427.00	21,605.00
Total nonoperative property . . . . .	41,453.00	34,631.00
Materials and supplies . . . . .	\$ 12,657.00	\$ 12,657.00
Total of intangibles other than those specified above . . . . .	\$ 4,569,221.00	\$ 4,064,430.00

The record shows a substantial difference in the value of lands and rights of way of Snow Mountain Water and Power Company, as submitted by applicants through C. H. Prouty, manager of the land department of Pacific Gas and Electric Company and E. R. Robbins, an assistant engineer for the Commission. The company reports a total of \$382,237.00 and Mr. Robbins a total of \$250,980.00. After considering the evidence submitted, we find the lands to have a

value of \$279,036.00. We are finding this value only for the purpose of this proceeding.

If Pacific Gas and Electric Company acquires the properties of Snow Mountain Water and Power Company, it may as of December 31, 1929 charge to fixed capital, to materials and supplies, to miscellaneous investments and to miscellaneous deferred debit accounts, the sum of \$4,466,020.00. This sum consists of the estimated historical cost of the properties, as reported in Exhibit No. 5, exclusive of lands. For lands we have included the aforementioned sum of \$279,036.00. The depreciation reserve that should be set up against the properties is \$504,791.00, as reported in said Exhibit No. 5.

Inasmuch as the properties will be transferred at a date subsequent to December 31, 1929, the foregoing amount should be adjusted to reflect the cost of additions and betterments and the retirement since December 31, 1929 to the date of the transfer of the properties.

The Pacific Gas and Electric Company has agreed to pay for the properties of Snow Mountain Water and Power Company \$611,666.50 and to assume and pay all existing obligations of the Snow Mountain Water and Power Company. As of March 31, 1930 the company's liabilities, including \$504,791.00 for depreciation reserve, were \$1,930,599.22. The price which Pacific Gas and Electric Company is paying for the properties is approximately \$2,000,000.00 less than the amount which may be charged to fixed capital and other assets accounts. The Commission has repeatedly held that where a utility pays more for properties than the historical cost, depreciated, it must charge the excess to profit and loss or surplus accounts. It has required the Pacific Gas and Electric Company to make such charges. We believe that it follows, in cases such as this, where it is shown that a utility can earn a reasonable return on the historical cost of the properties, and where the market value approximates said historical cost of the properties, that a utility, when it pays less for the properties than said historical cost, should be permitted, if it so desires, to credit the difference to profit and loss accounts.

O R D E R

The Snow Mountain Water and Power Company and Pacific Gas and Electric Company having asked permission to perform the acts referred to in the foregoing opinion, a public hearing having been held before Examiner Fankhauser, the Commission having considered the evidence submitted and being of the opinion that this application should be granted, subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:-

1. Snow Mountain Water and Power Company may, on or before October 1, 1930, sell, assign, transfer and convey to Pacific Gas and Electric Company, all of the properties which it has agreed to sell under the agreement dated January 23, 1930, and filed in this proceeding as Exhibit "A".

2. Snow Mountain Water and Power Company, upon selling, assigning, transferring and conveying the properties mentioned in this application, to Pacific Gas and Electric Company, may cease to furnish and supply electric and water service in the territory in which said Snow Mountain Water and Power Company is, or may be, furnishing and/or supplying electric and/or water service by means of said properties.

3. Pacific Gas and Electric Company may perform the obligations, covenants and promises contained in said agreement dated January 23, 1930.

4. Pacific Gas and Electric Company shall file with the Commission a certified copy of the deed or other instrument of conveyance under which it acquires and holds title to the aforesaid properties of Snow Mountain Water and Power Company, said deed or other instrument of conveyance to be filed within ninety days after its execution.

5. Pacific Gas and Electric Company may charge to its fixed capital and other accounts mentioned in the foregoing opinion an amount not in excess of \$4,466,020.00 offset by a depreciation reserve of \$504,791.00, said amounts to be adjusted, as indicated in said foregoing opinion. Said Pacific Gas and Electric Company shall file with the Commission within ninety days after acquiring the properties of Snow Mountain Water and Power Company, all book entries by which it records the purchase of said properties, including the

distribution of such charges as are proper to primary fixed capital accounts.

6. The consideration paid for the aforesaid properties by the Pacific Gas and Electric Company shall not be urged as fixing the value of the aforesaid properties for any purpose other than the transfer herein authorized.

7. The authority herein granted will become effective ten (10) days after the date hereof.

DATED at San Francisco, California, this 30<sup>th</sup> day of June, 1930.

W. J. Lewis  
John A. White  
W. J. Lewis  
W. J. Lewis

Commissioners.