

ORIGINAL

Decision No. 23016

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
TRACY GAS COMPANY,)
a corporation, and PACIFIC GAS AND)
ELECTRIC COMPANY, a corporation,)
for an order of the Railroad Com-)
mission of the State of California)
authorizing the former to sell,)
assign, transfer and convey all of)
its properties to the latter, pur-)
suant to a certain agreement entered)
into by applicants under date of)
August 15th, 1930.)

Application No. 16868

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

BY THE COMMISSION:

OPINION

In the above entitled matter the Railroad Commis-
sion is asked to make an order:-

1. Granting and conferring upon Tracy Gas Company authority to sell, assign, transfer and convey to Pacific Gas and Electric Company all of the properties which it has agreed to sell, assign, transfer and convey pursuant to the provisions of an agreement dated August 15, 1930, between the two companies;
2. Authorizing Tracy Gas Company, upon selling, assigning, transferring and conveying said properties, to cease furnishing and supplying gas service in the territory in which it is or may be furnishing and/or supplying gas service by means of said properties; and

3. Authorizing Pacific Gas and Electric Company to do whatever may be necessary or proper for the full and complete performance by it of its covenants and promises contained in the agreement of August 15, 1930.

The application shows that Tracy Gas Company is a corporation, organized during 1926, for the purpose of engaging as a public utility in the business of generating, manufacturing, distributing and selling artificial gas to consumers located in and about the City of Tracy, ^{San Joaquin} ~~Freemont~~ County. The company reports its assets and liabilities as of August 31, 1930, as follows:

ASSETS

Plant and properties.....		\$168,987.57
Discount on capital stock.....		15,642.50
Sinking fund.....		511.50
Current assets:		
Accounts receivable-Net.....	\$ 3,974.27	
Materials and supplies.....	438.57	
Cash.....	12,729.94	17,142.78
Deferred charges:		
Discount and expense on funded		
debt.....	11,693.55	
Undistributed suspense items.....	825.90	12,519.45
Total Assets.....		<u>\$214,803.80</u>

LIABILITIES

Capital stock.....		\$ 86,700.00
Funded debt.....		97,500.00
Advances from Pacific Gas and Electric Company.		33,405.03
Current liabilities:		
Accounts payable.....	\$ 25.95	
Meter deposits.....	745.00	
Accruals.....	1,496.61	2,267.56
Reserve for depreciation.....		17,154.31
Surplus (Debit balance).....		22,223.10
Total Liabilities.....		<u>\$214,803.80</u>

The outstanding stock and bonds were issued under authority granted by the Commission. The stock is all common and the bonds are first mortgage six percent gold bonds due July 1, 1947 and callable at 105 percent of face value. Of the outstanding

\$86,700.00 of stock all but \$200.00 was acquired by or for Pacific Gas and Electric Company under authority granted by the Commission in Decision No. 22079, dated February 3, 1930, in Application No. 16183. The purchase price of the stock, as revealed in that application, was \$119,550.60. The Commission's decision was made upon the condition that the price paid should not be urged before the Commission as determining, directly or indirectly, the value of the properties of Tracy Gas Company, the opinion reading on that point as follows:

"If, hereafter, the Tracy Gas Company asks permission to sell any, or all, of its properties to Pacific Gas and Electric Company, the Commission will at that time determine what part, if any, of the consideration paid directly or indirectly for the properties of Tracy Gas Company may be charged to fixed capital accounts, and what part, if any, should be charged to profit and loss accounts."

The two companies now have concluded to cause the transfer of the physical properties of Tracy Gas Company to Pacific Gas and Electric Company. An agreement to this end, dated August 15, 1930, a copy being filed as Exhibit "A", provides for the transfer by Tracy Gas Company of all and singular the assets and properties of every kind or character, whether tangible or intangible, real or personal, and, as consideration, the payment by Pacific Gas and Electric Company of the sum of \$126,327.00 and the assumption by it of all the existing obligations of Tracy Gas Company as of the date of transfer, including the outstanding first mortgage bonds. Exhibit No. 1 shows that Pacific Gas and Electric Company expended \$127,041.62 in acquiring stock of Tracy Gas Company.

Applicants did not introduce into the record a valuation of the properties to be transferred. The testimony shows that the system of Tracy Gas Company has been constructed within the last three years and it is thought that the book figures approximate

the historical or reproduction cost because of such recent construction. In connection with the depreciation reserve of \$17,154.31 set up on the books of the selling company, J. P. Ryan, valuation engineer of Pacific Gas and Electric Company, testified that such reserve had been accumulated on the straight line basis and that had it been computed on the six percent sinking fund basis, the method used by Pacific Gas and Electric Company, it would have aggregated at February 28, 1930, only \$7,317.98.

The cash payment of \$126,327.00 to be made by Pacific Gas and Electric Company and the liabilities to be assumed by it, amounting to \$133,172.59 on August 31, 1930, as set forth in the foregoing balance sheet, are substantially in excess of the cost of the properties, less depreciation, and the other assets to be acquired. In our opinion, the purchaser in recording the transaction on its books of account should set up the present ledger figures representing tangible fixed capital and other assets in the amounts now appearing on the books of the seller. It may, if it so desires, offset the tangible fixed capital figures in part with a credit entry in its reserve for depreciation account computed on the sinking fund method rather than by transferring to its records the amount of the reserve as heretofore set up by Tracy Gas Company. If the payments made by Pacific Gas and Electric Company and the reserve and the liabilities assumed by it and set up on its books exceed the cost of the properties and assets acquired such excess shall be charged by the purchaser to Account 508, miscellaneous debits to profit and loss.

ORDER

Application having been made to the Railroad Commission, as indicated in the foregoing opinion, a public hearing having been held before Examiner Fankhauser and the Commission being

of the opinion that the application should be granted, subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED, that:

(1) Tracy Gas Company may, on or before December 31, 1930, sell, assign, transfer and convey to Pacific Gas and Electric Company all the properties which it has agreed to sell under the agreement dated August 15, 1930.

(2) Tracy Gas Company, upon selling, assigning, transferring and conveying to Pacific Gas and Electric Company the properties referred to in this application, may cease furnishing and supplying gas service in the territory in which it is or may be furnishing and/or supplying gas service by means of such properties.

(3) Pacific Gas and Electric Company may perform the obligations, covenants and promises contained in said agreement dated August 15, 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 properties of Tracy Gas Company, said deed or other instrument to be filed within ninety (90) days after its execution, and also, at the same time, a statement indicating the exact date it acquired such properties.

(5) Pacific Gas and Electric Company, upon recording the purchase of the properties referred to herein on its books of account may charge to tangible fixed capital accounts not more than \$168,987.57, plus additions and betterments from August 31, 1930 to the date of transfer. If it pays for the properties and assets of Tracy Gas Company more than the \$168,987.57, plus additions and betterments and plus the ledger value of the other assets acquired, after deducting liabilities and an adequate depreciation reserve, it

must charge such excess to Account 508, miscellaneous debits to profit and loss.

(6) The consideration paid for the properties of Tracy Gas Company shall not be urged as fixing the value of such properties for any purpose other than the transfer herein authorized.

(7) Pacific Gas and Electric Company shall file with the Commission, when available, a copy of each and every book entry by which it records on its books of account the purchase of the properties of Tracy Gas Company and the distribution of said purchase price to primary accounts.

(8) The authority herein granted will become effective upon the date hereof.

DATED at San Francisco, California, this 28th day of October, 1930.

[Signature]
[Signature]
Leon A. [Signature]
[Signature]
[Signature]
Commissioners.