

forth in its filed schedule G-2-N (Revised Sheet C.R.C. No. 349-G).

The agreement of September 22, 1930, a copy of which is filed as Exhibit "A", refers to the sale by Stanford University to Pacific Gas and Electric Company, for \$27,810.76, of a gas distribution system situate on the university campus and consisting of two-inch and four-inch mains, together with service pipes, and rights-of-way of reasonable width across the campus for the maintenance, operation, repair and replacement of said gas distribution system and any extension or extensions thereof, including feeder mains. Exhibit No. 1 shows that the properties to be sold include 46,000 feet of wrought standard black pipe and fittings, 31 valves and valve pits and 230 services.

The agreement contains a provision that in the event the purchase and sale of the property is consummated, the seller promises and agrees that it will not permit any person, firm or corporation, other than the purchaser, to install, operate or maintain gas mains on the campus as long as the purchaser uses the gas distribution system referred to for the purpose of delivering gas and gas service to its consumers. In this connection it is reported that ^{the} gas properties of Stanford University now being sold to Pacific Gas and Electric Company have been leased to and are being operated by the City of Palo Alto, and that the city, in addition, has installed certain mains, services, meters and regulators on the campus. At the hearing held in this proceeding, Norman E. Malcolm, City Attorney of the City of Palo Alto, filed on behalf of the city, a petition to intervene and an application requesting the Commission to ascertain and determine the value of all the property of the city which forms part of the distribution system proposed to be sold by the agreement.

In its petition for intervention and application, the city alleges that it owns on the university campus approximately 1400

feet of 4-inch gas main running from Alma Street and University Avenue to the junction of Quarry Road and Highway, which main is used exclusively for university service, 610 feet of 2-inch main on Mansfield Road and Santa Inez to Dolores, 3080 feet of 1-inch main on County Road to Lathrop residence, 64 one half-inch service connections, with an average length of 21-1/2 feet, two one-inch services, 261 meters with fittings and 214 regulators with fittings. In addition it is alleged that the city has within the last several years replaced certain 2-inch gas main and that since October 1, 1929 it has paid out in excess of \$2,000.00 for the adjusting of gas appliances to the use of natural gas and that as a result of the sale of the properties it will lose a net revenue of about \$3,500.00 per annum. The city contends that it should be reimbursed, not only for the properties which it owns on the university campus, but likewise for the replacement of gas main and the adjustment of gas appliances and that it should be compensated for severance damage and going concern value. The city does not protest the granting of this application, but it does take the position that the Pacific Gas and Electric Company should purchase the city's properties on the university campus and otherwise reimburse it, as indicated. Counsel for applicant stipulated that applicant would be willing to purchase, at a fair valuation, any property of the city which is situated on the university campus and which can be used by it. He was not willing to stipulate that applicant would compensate the city for severance damage or going concern value or for properties which it could not use.

It appears from the record that the City of Palo Alto has been operating the gas distribution system owned by the university under a lease which can be terminated by either party on sixty days' notice and that the university offered to sell the properties

which are the subject matter of this application, to the city. The city, it appears, was not satisfied with the price and thereupon the offer was withdrawn with the result that the university entered into an agreement to sell the properties to the Pacific Gas and Electric Company.

We know of no provision of the Public Utilities Act which authorizes the Commission, under the circumstances of this case, to make a valuation of the properties owned by the City of Palo Alto and require applicant to purchase the city's properties at a price fixed by the Commission. Apparently the university has the right to terminate the lease under which the city has been operating the properties. The city in making any expenditures no doubt did so in contemplation that the university might terminate the lease. We believe that the petition for intervention and the application filed by the City of Palo Alto should be denied without prejudice.

In our opinion the application herein should be granted. It appears, however, that some question might exist as to the reasonableness of the purchase price of \$27,810.76. Mr. J. T. Ryan, valuation engineer of Pacific Gas and Electric Company, estimates, as of July 1, 1930, the cost to reproduce new the properties to be transferred, at \$30,165.00 and the cost to reproduce new less depreciation at \$22,377.00. He further estimates the historical reproduction cost at about \$26,495.00 and the historical reproduction cost less depreciation at about \$22,370.00. In our opinion, the purchaser in recording the acquisition of these properties on its books of account should charge to its fixed capital accounts the estimated historical cost figures, plus additions and betterments, and should credit to its depreciation reserve account an amount representing depreciation estimated to have accrued on the properties at the date of transfer. Any difference between the purchase price

and the estimated historical cost of the properties, less accrued depreciation, should be charged, or credited, to the purchaser's profit and loss account.

The record does not show what rates are now being charged by the City of Palo Alto to consumers being served by the system which is the subject matter of this application. Pacific Gas and Electric Company plans on putting into effect in the territory served, its Schedule G-2-N, a copy of which is filed as Exhibit "B". This schedule provides for the furnishing of natural gas for light, heat and power service to consumers in other points within the San Jose Division in Santa Clara and San Mateo Counties, and appears to us to be the proper one under which to supply service to consumers on the university campus.

ORDER

Application having been filed with the Commission as set forth in the preceding opinion, a public hearing having been held before Examiner Fankhauser, and the Railroad Commission being of the opinion that it should enter its orders as follows:

IT IS HEREBY ORDERED that the petition for intervention and application filed by the City of Palo Alto in this matter be, and it hereby is, denied without prejudice.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company be, and it hereby is, authorized, after the effective date hereof and on or before June 30, 1931, to enter into the agreement dated September 22, 1930, with the Board of Trustees of the Leland Stanford Junior University, referred to in the foregoing opinion, and to do whatever may be necessary to consummate said agreement,

provided that the Commission in authorizing applicant to execute said agreement is not/^{thereby} granting applicant an exclusive right to operate in the territory covered by said agreement.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company be, and it hereby is, authorized upon the acquisition of the aforesaid properties to make effective in the territory involved in this application its filed schedules of rules and regulations governing gas service and to charge and collect for the gas service to be furnished and supplied, the rates and charges set forth in its Schedule G-2-N (Revised Sheet C.R.C. No. 349-G).

The authority herein granted is subject to the following conditions:

(1) Pacific Gas and Electric Company upon recording on its books the purchase of the properties referred to in the aforesaid agreement shall charge to its fixed capital accounts an amount which does not exceed the estimated historical reproduction costs of such properties as of the date of transfer and shall credit to its depreciation reserve account an amount which represents the estimated accrued depreciation as of the date of transfer. Any difference between the purchase price to be paid for said properties and the estimated historical reproduction costs, less depreciation, shall be charged, or credited, to profit and loss.

(2) Applicant shall file with the Commission within sixty (60) days after acquiring the properties referred to herein, a copy of the deed, or deeds, of conveyance and copies of each and every book entry used to record the acquisition and the distribution to primary accounts.

(3) The authority herein granted will become effective twenty (20) days from the date hereof.

DATED at San Francisco, California, this 13th day of November, 1930.

C. C. Seaver

Paul G. Leland

W. H. Linn

Commissioners.