

Decision No. 23122

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
COAST COUNTIES GAS & ELECTRIC COMPANY,
a corporation, for an order of the
Railroad Commission authorizing it
(a) to sell and transfer to Columbia
Steel Company, a corporation, the
properties referred to in this applica-
tion; (b) to abandon its Pittsburg
artificial gas plant and write off the
difference between the salvage value,
and book value thereof under Property
Abandoned Account #132.

ORIGINAL

Application No. 16955

W. F. Williamson, Wallace & Vaughan,
by R. L. Vaughan, for applicant.

LOUTFIT, COMMISSIONER:

OPINION

Coast Counties Gas and Electric Company asks permission to sell and transfer to Columbia Steel Company, the properties referred to in this application and abandon its Pittsburg gas plant and charge the difference between the salvage value and book value thereof to Account No. 132, "Property Abandoned," and amortize such charge over a period of ten years.

Coast Counties Gas and Electric Company is a public utility engaged in supplying electricity and gas in the counties of Santa Cruz, Monterey, Santa Clara and San Benito, and supplying gas in the County of Contra Costa. Since the advent of natural gas for service to its consumers, the artificial gas plant operated by it at Pittsburg has been temporarily abandoned. It is of record that

the plant is not needed for standby purposes because there is available to applicant natural gas from both the coast transmission line of Pacific Gas and Electric Company and the valley line of the Standard-Pacific Gas Pipe Line Company.

It appears that the Columbia Steel Company has offered to purchase the land (about 2.95 acres) on which the Pittsburg plant is situate and part of the plant for \$25,000.00 (Exhibit "A").

In Exhibit "B" the book value and the depreciation as of September 1, 1930 of the Pittsburg gas plant of applicant is reported as follows:

<u>Item</u>	<u>Book Value</u>	<u>Depreciation</u>
Land.....	\$ 6,084.42	\$ --
Production equipment.....	43,762.75	7,256.92
Boiler plant equipment.....	28,970.84	3,085.41
Gas production equipment....	125,407.79	20,905.13
Gas storage equipment.....	52,104.13	3,279.59
Total.....	\$256,329.93	\$ 34,527.05

The record does not conclusively show that the \$256,329.93 represents the cost of the properties that are being abandoned or that \$34,527.05 reflects the accrued depreciation. These matters are now the subject of further investigation. Pending such inquiry and determination, applicant asks that it be permitted to sell the properties described in Exhibit "A". I see no objection to the granting of such request and indicating to applicant on what basis the net investment of its Pittsburg Gas plant may be charged to Account No. 132, "Property Abandoned," and amortized through charges to operating expense account No. 861, "Depreciation Adjustments." Account No. 132, "Property Abandoned," reads:

"This account is intended as a suspense account in which to include temporarily, when so authorized by the Commission, losses on gas fixed capital retired from service when not provided for by the depreciation reserve

or by insurance or included as a debit to operating expense account 861, "Depreciation adjustments", which see. (See also balance sheet account 241, "Depreciation reserve.")

Application for permission to use this account should be accompanied by a statement containing a full explanation with respect to the items which it is proposed to charge thereto, the period over which and the accounts to which it is proposed to amortize such charges. Unless otherwise directed by the Commission, losses on gas fixed capital charged to this account shall be amortized by charging operating expense account 861, "Depreciation adjustments."

Any charges to Account No. 132, "Property Abandoned," presupposes that the accounts of a utility have been properly kept, in that the cost of property retired prior to the abandonment of the property, the net cost of which is to be charged to said Account No. 132, "Property Abandoned," has been credited to fixed capital accounts and that the utility has set up a proper and adequate depreciation reserve. The amount which may be charged to said Account No. 132, "Property Abandoned," is the investment in the property abandoned less a proper depreciation reserve and salvage. If the depreciation reserve on the books is inadequate, it should be adjusted, for an inadequate reserve means that some time during the past the company's surplus has been overstated.

Under ordinary accounting practice, the investment in abandoned property is a charge to operating expenses or to profit and loss. When such investment is unusually large, the Commission has permitted the writing off of such amounts over a period of years by charges to operating expenses. Questions of writing off such amounts have usually been incidental to the fixing of rates. In this instance, applicant's rates are not before us for readjustments. On what basis the company will in the future urge this Commission to fix rates is not disclosed by the record. I believe, however, that

applicant should be put on notice that the amortization of the investment in abandoned property is foreign to rates fixed on the present value of property, because the property is no longer in service. In other words, if applicant were before us today urging that its rates be fixed so as to yield a return on the present value of its properties, such value would not include the abandoned property and therefore there would be nothing to amortize. It therefore does not seem to be unreasonable to require applicant to stipulate that if it hereafter urges the Commission to fix rates on the basis of the then present value of its properties, it will exclude from its properties the investment in its Pittsburg gas plant and exclude from operating expenses any amount necessary to amortize the investment in such plant.

I believe the company should be permitted to charge to Account No. 132, "Property Abandoned," the actual cost of the properties abandoned, less proper accrued depreciation, which should from time to time have been charged to operating expenses and which, if not so charged, should now be adjusted through profit and loss, and less the estimated salvage value of the property to be abandoned. The amount that may be charged to said Account No. 132, "Property Abandoned," will be fixed by a supplemental order. Under the provisions set forth in this opinion and order, such amount may be amortized over a period of ten years on a six percent sinking fund basis by appropriate charges to operating expenses.

I herewith submit the following form of order.

ORDER

Coast Counties Gas and Electric Company having asked permission to sell the properties described in Exhibit "A" to

Columbia Steel Company and to abandon its Pittsburg gas plant and write off the difference between the salvage value and the book value thereof under Account No. 132, "Property Abandoned," a public hearing having been held and the Commission being of the opinion that applicant should at this time be permitted to sell said properties and to abandon its Pittsburg gas plant and that the amount that may be charged to Account No. 132, "Property Abandoned," should be determined by a supplemental order, therefore,

IT IS HEREBY ORDERED that Coast Counties Gas and Electric Company may, on or before December 31, 1930, sell and transfer to Columbia Steel Company the properties described in Exhibit "A" filed in this proceeding and abandon its Pittsburg gas plant, provided that only such amount as may be hereafter determined along the lines indicated in the foregoing opinion may be charged to Account No. 132, "Property Abandoned," and amortized during a period of ten years from the date hereof, on a six percent sinking fund basis, by charging the annuity to Account No. 351, "Depreciation Adjustments."

IT IS HEREBY FURTHER ORDERED that the permission hereby granted to charge the amount hereafter determined to Account No. 132, "Property Abandoned," is upon the condition that Coast Counties Gas and Electric Company file a stipulation that if it hereafter urges the Commission to fix rates on the basis of the then present value of its properties, rather than on the historical cost of said properties, it will exclude from its properties the investment in its Pittsburg gas plant and exclude from operating expenses any amount necessary to amortize the investment in such

plant.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

DATED at San Francisco, California, this 29th day of November, 1930.

C. L. Seaver
Emma C. ...
Leon ...
David ...
W. J. ...

Commissioners.