

Decision No. 22508.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
MIDLAND COUNTIES PUBLIC SERVICE COR-
PORATION, SAN JOAQUIN LIGHT AND POWER
CORPORATION and PACIFIC GAS AND ELECTRIC
COMPANY for an order of the Railroad
Commission of the State of California
authorizing the consummation, in accor-
dance with its terms, of a certain
agreement of sale and purchase entered
into by applicants under date of Jan-
uary 24, 1931.

ORIGINAL

Application No. 17164

- C. P. Cutten, for Midland Counties Public Service Corporation and Pacific Gas and Electric Company;
- A. E. Wishon, for San Joaquin Light and Power Corporation;
- J. J. Daniel, for California Farm Bureau Federation;
- Claude L. Rowe, City Attorney, for City of Fresno.

BY THE COMMISSION:

O P I N I O N

This is an application made jointly by Midland Counties Public Service Corporation, San Joaquin Light and Power Corporation and Pacific Gas and Electric Company, in which the Commission is asked to make its order as follows:

1. Granting and conferring upon Midland Counties Public Service Corporation, hereinafter called Midland Corporation, all necessary permission and authority to sell, assign, transfer and convey to San Joaquin Light and Power Corporation, hereinafter called San Joaquin Corporation, all of the properties which the former has agreed to sell, assign, transfer and convey unto the latter, pursuant to the provisions of the agreement dated January 24, 1931 and filed in this proceeding as Exhibit C;

2. Authorizing Midland Corporation, upon assigning, transferring and conveying to San Joaquin Corporation the properties mentioned in this application, to cease furnishing and supplying electric service in the territory in which said Midland Corporation is now or may be furnishing and/or supplying electric service by means of said properties;

3. Granting and conferring upon San Joaquin Corporation all necessary permission and authority, as provided for under the provisions of Section 52 of the Public Utilities Act of the State of California, to issue and deliver to Midland Corporation, as part consideration for the performance by Midland Corporation of its covenants in said agreement of January 24, 1931 set forth and contained, ten thousand and five (10,005) shares (\$1,000,500.00 par value) of San Joaquin Corporation's common capital stock fully paid;

4. Granting and conferring upon San Joaquin Corporation all necessary permission and authority, as provided for under the provisions of Section 52-1/2 of the Public Utilities Act of the State of California, to assume and agree to pay the obligations of Midland Corporation, as in said agreement of January 24, 1931 is provided;

5. Granting and conferring upon Pacific Gas and Electric Company, hereinafter called Pacific Company, all necessary permission and authority, as provided for under the provisions of Section 51 (b) of the Public Utilities Act of the State of California, to acquire and/or hold the shares of the capital stock of San Joaquin Corporation which Midland Corporation has agreed to cause to be delivered to Pacific Company, as in said agreement of January 24, 1931 is provided;

6. Granting and conferring upon applicants all necessary permission and authority to consummate said agreement of January 24, 1931 (Exhibit C) in accordance with its terms.

In brief, the application involves the transfer of the properties of Midland Corporation to San Joaquin Corporation, the issue by the latter of \$1,000,500.00 of its common stock and the subsequent acquisition of such stock by Pacific Company.

The application shows that Midland Corporation is engaged in distributing electric energy in portions of the Counties of Fresno, Monterey, San Luis Obispo and Santa Barbara, and that

San Joaquin Corporation is distributing electric energy, gas and water in portions of the Counties of Fresno, Merced, Madera, Tulare, Kings, Kern and Mariposa and elsewhere. The electric properties of the two companies are physically interconnected and Midland Corporation receives from San Joaquin Corporation, by purchase, the electric energy it distributes. The assets and liabilities of the two as of January 31, 1931, are reported in Exhibit No. 1, as follows:

A S S E T S	: Midland : Corporation	: San Joaquin : Corporation
Plants and properties	\$ 6,701,475.57	\$83,767,710.12
Discount on capital stock	-	1,918,298.50
Sinking funds	443.34	2,245.02
Current assets:		
Cash	13,298.00	289,595.92
Notes receivable	976.57	52,173.51
Accounts receivable	127,204.94	1,243,423.79
Due from affiliated companies	-	2,018,828.46
Materials and supplies	144,118.30	1,152,919.81
Marketable securities	5,000.00	62,401.00
Interest, etc. receivable	42.66	1,175.02
Total current assets	\$ 290,639.47	\$ 4,820,517.51
Prepayment	30,497.66	409,345.19
Debt discount and expense	342,020.06	3,629,207.90
TOTAL ASSETS	\$ 7,365,076.10	\$94,547,324.24
L I A B I L I T I E S		
Capital stock:		
Preferred	\$ 500.00	\$20,970,200.00
Common	1,000,000.00	13,000,000.00
Total	1,000,500.00	33,970,200.00
Funded debt	2,402,000.00	35,392,500.00
Minority interest in subsidiary companies	-	11,594.43
Current liabilities:		
Accounts payable	58,458.69	488,649.57
Due affiliated companies	2,018,828.46	3,474,997.49
Meter and line deposits	71,986.49	443,066.03
Dividends declared	-	3,518.44
Accruals	36,292.97	792,381.63
Total current liabilities	\$2,186,156.61	\$ 5,202,613.16
Deferred credits	-	1,111.26
Reserves	907,389.10	10,851,230.49
Surplus	269,030.39	9,118,074.90
TOTAL LIABILITIES	\$ 7,365,076.10	\$94,547,324.24

It appears that the two corporations are controlled through stock ownership by Pacific Company, which owns all of the outstanding stock of Midland Corporation and \$12,886,700.00 of the common stock; and \$4,751,800.00 of the preferred stock of San Joaquin Corporation.

It seems that now it is thought desirable to consolidate under one ownership the properties of Midland Corporation and San Joaquin Corporation and to that end an agreement, dated January 24, 1931 has been made by the three corporations, applicants herein, whereby it is provided that all the properties of Midland Corporation, except \$2,500.00 in cash, shall be transferred to San Joaquin Corporation which shall, in consideration,

- a. Cause to be issued and delivered to Midland Corporation \$1,000,500.00 of its common capital stock;
- b. Release Midland Corporation from all and singular its existing obligations to San Joaquin Corporation; and
- c. Assume and agree to pay all of Midland Corporation's other existing obligations, including the principal and interest of its outstanding bonds.

Upon transfer of the properties Midland Corporation has agreed, subject to receiving permission to do so, to liquidate its assets and to distribute the stock it will receive, to Pacific Company as its sole stockholder.

A copy of the agreement is filed as Exhibit "C". In support of the request for its approval, applicants allege that the proposed consolidation will eliminate duplications now existing in accounting matters, will make more flexible the handling of materials and supplies and automobiles, will improve the position of the preferred stock of the purchaser by adding to its equity, and is a step in the final amalgamation of the property, held or controlled by the Pacific Company, and accordingly will be in the public interest and

for the benefit of the public service.

At the hearing held in this matter evidence was produced on the cost of the properties and assets of Midland Corporation, by J.S. Moulton, an engineer employed by San Joaquin Corporation and Pacific Company, who estimated as of January 31, 1931 the historical cost of lands, rights and structures, at \$5,488,124.00 and the reproduction cost less depreciation at \$6,093,892.00. The equity of the common stock of Midland Corporation, upon these two bases, is reported by Mr. Moulton in Exhibit No. 1, as follows:

I T E M	:Upon historical: :cost less depre- :ciation basis	:Upon reproduction :cost less depre- :ciation basis
Lands, rights and structures	:\$ 5,488,124.00	:\$ 6,093,892.00
Current and accrued assets	290,639.00	290,639.00
Sinking funds	443.00	443.00
Deferred debits	372,518.00	372,518.00
Total assets.....	<u>6,151,724.00</u>	<u>6,757,492.00</u>
Bonds outstanding	2,402,000.00	2,402,000.00
Preferred stock	500.00	500.00
Current and accrued liabilities	2,186,157.00	2,186,157.00
Reserves	907,389.00	907,389.00
Total deductions	<u>\$ 5,496,046.00</u>	<u>\$ 5,496,046.00</u>
Balance for \$1,000,000. of common stock	:\$ 655,678.00	:\$ 1,261,446.00

Applicants urge the granting of the application to issue stock on the grounds, among others, that the issue will not increase the total stock outstanding but merely will result in an exchange of San Joaquin Corporation stock for Midland Corporation stock on the basis of par for par. This, in our opinion, is not sufficient^{reason} for an order authorizing the issue of stock in the amount requested. We are here called upon, in effect, to pass upon the capitalization of the properties of Midland Corporation. It has been our practice in matters of this nature to use as a basis in arriving at the amount of securities to be issued, the original or historical cost of the properties, less depreciation, and considering lands at present value, and we see no reason why we should deviate from such policy in this

matter. Here the only figures we have in the record of the original or historical costs are those introduced by Mr. Moulton, and using these figures we accordingly will enter an order authorizing San Joaquin Corporation to issue not exceeding \$729,000.00 of stock. This figure was determined as follows:

Lands, rights and structures(Exhibit 1)	\$5,488,124.00	
Other assets	663,600.00	
Total assets		\$6,151,724.00
Less reserves		907,389.00
Balance		\$5,244,335.00
LESS liabilities to be assumed as part consideration:		
Bonds	\$2,402,000.00	
Other liabilities	2,186,157.00	4,588,157.00
Balance for issue of stock		\$ 656,178.00

In the past the Commission has in matters similar to this permitted the issue of stock at 90. Making such an allowance at this time will call for the issue of \$729,000.00 of stock.

We believe that San Joaquin Corporation, in recording the transaction on its books of account, should charge to fixed capital not exceeding the figure estimated by its engineer, that is, the sum of \$5,488,124.00, plus, of course, additions made between January 31, 1931 and the date of acquisition, and that for other accounts, both debit and credit balances, it should carry on to its books the figures now appearing on the books of the Midland Corporation.

ORDER

Application having been made to the Railroad Commission for an order authorizing Midland Counties Public Service Corporation to transfer its properties, and San Joaquin Light and Power Corporation to issue \$1,000,500.00 of stock, and Pacific Gas and Electric Company to acquire and hold such stock, a public hearing having been held and the Railroad Commission being of the opinion that the application

should be granted only as herein provided, and that the money, property or labor to be procured or paid for through the issue of \$729,000.00 of stock by San Joaquin Light and Power Corporation, is reasonably required for the purpose specified herein, which purpose is not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED as follows:

- (1) Midland Counties Public Service Corporation, may, after the effective date hereof and on or before June 30, 1931, sell assign, transfer and convey to San Joaquin Light and Power Corporation all of the properties which it has agreed to sell, assign, transfer and convey pursuant to the provisions of the agreement dated January 24, 1931, and filed in this application as Exhibit "C".
- (2) Midland Counties Public Service Corporation may, upon assigning, transferring and conveying the properties referred to in this application, cease furnishing and supplying electric service in the territory in which it is now or may be furnishing and/or supplying electric service.
- (3) San Joaquin Light and Power Corporation may, after the effective date hereof and on or before June 30, 1931, issue to Midland Counties Public Service Corporation as part consideration for the properties herein authorized to be transferred, not exceeding \$729,000.00 of its common capital stock.
- (4) San Joaquin Light and Power Corporation, as part consideration for the transfer of said properties, may assume and agree to pay the outstanding bonds and other liabilities of Midland Counties Public Service Corporation, as provided in the agreement of January 24, 1931 filed in this proceeding as Exhibit "A".

- (5) Pacific Gas and Electric Company may acquire and hold the shares of capital stock of San Joaquin Light and Power Corporation herein authorized to be issued.
- (6) Midland Counties Public Service Corporation, San Joaquin Light and Power Corporation and Pacific Gas and Electric Company may, on and after the effective date hereof and on or before June 30, 1931, consummate and enter into the agreement of January 24, 1931.
- (7) The application insofar as it involves the issue of \$271,500.00 of stock be, and it hereby is, dismissed without prejudice.

The authority herein granted is subject to the following conditions:

a. The price at which Midland Counties Public Service Corporation is herein authorized to transfer its properties shall not hereafter be urged before this Commission or any other court or public body as a measure of value of such properties for the purpose of fixing rates or any other purpose.

b. San Joaquin Light and Power Corporation within sixty days after acquiring the properties of Midland Counties Public Service Corporation, shall file with the Commission a certified copy of the deed or deeds of conveyance and a statement showing the book entries by which it records on its books of account the purchase of such properties and the distribution thereof to primary accounts.

c. Midland Counties Public Service Corporation shall file with the Commission within sixty days after disposing of its properties, a financial report prepared on the regular annual report forms provided by this Commission, setting forth its operations during the period January 1, 1931 down to the date of transfer.

d. San Joaquin Light and Power Corporation shall keep such record of the issue of the stock herein authorized as will enable it to file within thirty days thereafter a verified report, as required by the Railroad Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

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

DATED at San Francisco, California, this 16th day of March, 1931.

C. Sweeney
Leon Whaley
H. A. ...
W. B. ...
Fred G. Stewart
Commissioners.