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Decision No. 11295

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of )  
DEL MONTE LIGHT AND POWER COMPANY, )  
a corporation, and COAST VALLEYS GAS )  
AND ELECTRIC COMPANY, a corporation, )  
for an order authorizing the sale by )  
DEL MONTE LIGHT AND POWER COMPANY to )  
COAST VALLEYS GAS AND ELECTRIC COM- )  
PANY of all its physical assets and )  
other properties, and authorizing )  
the COAST VALLEYS GAS AND ELECTRIC )  
COMPANY to issue bonds in payment )  
therefor. )

ORIGINAL

Application Number 8355.

Sloss, Ackerman & Bradley, by C. M. Bradley and  
Carmel Martin, for Del Monte Light and  
Power Company;  
Chickering & Gregory, by W. C. Fox and James F.  
Pollard, for Coast Valleys Gas and Elec-  
tric Company;  
Devlin & Brookman, by Douglas Brookman, for indi-  
vidual property owners and residents of  
Pebble Beach, intervenors.

BENEDICT, Commissioner.

O P I N I O N

Petitioners herein request the Commission to auth-  
orize DEL MONTE LIGHT AND POWER COMPANY to sell and COAST VAL-  
LEYS GAS AND ELECTRIC COMPANY to purchase all of the properties  
of Del Monte Light and Power Company, and to authorize Coast Val-  
leys Gas and Electric Company to issue and deliver to Del Monte  
Light and Power Company \$50,000.00 par value of its first mortgage  
6 per cent. bonds due March 1, 1952 as payment for the properties.

It is of record that all the properties of Del Monte  
Light and Power Company, as well as an electrical line owned by  
D. C. Morris and referred to in the transcript in this proceeding,  
will be, if authorized by the Commission, sold to Coast Valleys  
Gas and Electric Company.

Del Monte Light and Power Company, hereinafter sometimes referred to as the "Del Monte Company," operates an electric distribution system at Pebble Beach, East Monterey and Seaside and in a small part of Pacific Grove, all in Monterey County. It purchases power from the Coast Valleys Gas and Electric Company, which serves in the remaining portions of Monterey and in the populated districts between the extremities of the isolated sections served by the Del Monte Company. It has been the recent finding of this Commission that the Del Monte Company has no right to sell electrical energy in East Monterey and Seaside. The Commission has directed the Coast Valleys Gas and Electric Company, hereinafter sometimes referred to as the "Coast Valleys Company", to serve this district.

The properties of the Del Monte Company were appraised by Chas. Grunsky, assistant engineer of the Commission, and by F. Emerson Hoar, consulting engineer for the Del Monte Company.

In the Commission's Exhibit No. 1, Chas. Grunsky estimates the cost of the Del Monte property as of October 31, 1922, as follows:-

|   |             |
|---|-------------|
| Historical reproduction cost . . . . .  | \$43,731.00 |
| Reproduction cost-new . . . . .         | 51,850.00   |
| Reproduction cost-depreciated . . . . . | 37,846.00   |

These estimates do not include any expenses for organization, cost of franchises or other intangibles, nor any value for rights-of-way other than the estimated cost of clearing such rights-of-way.

The Del Monte Company in its Exhibit B reports the cost of its fixed capital installed at \$40,003.85 and the cost of construction work in progress at \$2,142.66, making a total of \$42,146.51 as of September 30, 1922. The company's reserve for accrued depreciation as of the same date is reported at \$2,337.27.

F. Emerson Hoar, consulting engineer for the Del Monte Company, reports the cost new of the Del Monte properties as of October 31, 1922, at \$61,813.00 and the present value at \$54,702.00.

These two items are made up as follows:-

| <u>Reproduction Cost Items</u>        | <u>New</u>  | <u>Present Value</u> |
|---------------------------------------|-------------|----------------------|
| Organization and Franchises           | \$2,700.00  | \$2,700.00           |
| Business Development . . . . .        | 3,112.00    | 3,112.00             |
| Total Intangible Capital              | 5,812.00    | 5,812.00             |
| Operative Electric Property . . . . . | 52,591.00   | 46,350.00            |
| Nonoperative Property . . . . .       | 3,410.00    | 2,540.00             |
| TOTAL . . . . .                       | \$61,813.00 | \$54,702.00          |

Chas. Grunsky's estimate of reproduction cost and depreciated cost should be increased for an allowance for rights-of-way which were originally donated in the first instance to obtain service.

The Del Monte Company has not obtained from this Commission permission to exercise its franchise rights. It appears that the Coast Valleys Company has a franchise which enables it to give service in the territory now served by the Del Monte Company. It is therefore not necessary for Coast Valleys Company to acquire the franchise of Del Monte Company. In effect, Coast Valleys Company asks permission to acquire the physical properties of Del Monte Company. Organization costs accrue primarily to the benefit of the corporate entity. Such costs will be of no benefit to Coast Valleys Company. The evidence does not show the amount of development cost, if any such costs have been incurred by the Del Monte Company.

Estimates of accrued depreciation vary widely between the two engineering reports. The Del Monte Company's engineer's assumption of practically no depreciation of wire and a depreciation of not exceeding 40% on poles, appears in error and not in accordance with facts.

The earnings and expenses of the Del Monte Company for the year 1921 and for the 12 months ending September 30, 1922, are reported as follows:-

| Item                     | Calendar<br>Year<br>1921 | Year Ending<br>Sept 30,<br>1922 |
|--------------------------|--------------------------|---------------------------------|
| Gross Revenues . . . . . | \$14,248.84              | \$ 15,571.83                    |
| Operating Expenses . . . | 11,965.41                | 13,628.28                       |
| Net Operating Revenues   | <u>\$ 2,283.43</u>       | <u>\$ 1,943.55</u>              |

The net operating revenues reported are less than the annual interest charges on the bonds which the Coast Valleys Company asks permission to issue in payment for the Del Monte Company properties.

Certain consumers of the Del Monte Company who are property owners or who reside in Pebble Beach appeared through their attorneys, Devlin & Brookman, and urged that if the transfer is authorized, the rates of Coast Valleys Company should be made applicable for service rendered to consumers now being served by the Del Monte Company. They contend that the rates of the Coast Valleys Company, as filed, are applicable to the entire northern part of Monterey County and that if the Coast Valleys Company acquires the property, it can collect only such rates as it now has on file with the Commission. It appears from the testimony that were the request of the intervenors granted, some of the consumers of the Del Monte Company would have their rates increased and others decreased. It would appear neither necessary nor altogether proper to determine this question in this proceeding. This is not a rate proceeding and therefore no order affecting rates should be made herein.

Coast Valleys Gas and Electric Company asks permission to issue \$50,000.00 of bonds in payment for the properties of the Del Monte Light and Power Company. I have considered the evidence in this case and am of the opinion that the price which the Coast Valleys Gas and Electric Company has agreed to pay for the properties is too high. I do not believe that the Coast Valleys Company should capitalize in any form whatsoever more than \$40,000.

of the agreed purchase price. This amount may be capitalized through the issue of not exceeding \$42,200.00 of its 6 per cent. bonds, which amount of bonds at 95 is equivalent to approximately \$40,000.00. If the company pays more than \$40,000.00 for the properties, the excess must be charged by the Coast Valleys Gas and Electric Company to its profit and loss account.

The Del Monte Company in its Exhibit B shows as of September 30, 1922, consumers deposits in the amount of \$2,953.83. The manner in which these deposits will be handled, if the petitioners will exercise the authority herein granted, should be submitted to the Commission prior to the final transfer of the properties.

I herewith submit the following form of order:-

O R D E R

DEL MONTE LIGHT AND POWER COMPANY having applied to the Railroad Commission for permission to sell all of its properties to the COAST VALLEYS GAS AND ELECTRIC COMPANY and the latter company having joined in the application and having asked permission to issue \$50,000.00 of bonds in payment for said properties, a public hearing having been held and the Commission having considered the testimony submitted in this proceeding and being of the opinion that the application should be granted as herein provided;

IT IS HEREBY ORDERED that DEL MONTE LIGHT AND POWER COMPANY and D.C.MORRIS be, and they are hereby, authorized to sell the properties described in this application, and the line described on pages 23, 24 and 25 of the transcript, to COAST VALLEYS GAS AND ELECTRIC COMPANY, which is hereby authorized to acquire such properties.

IT IS HEREBY FURTHER ORDERED, that the COAST VALLEYS GAS AND ELECTRIC COMPANY be, and it is hereby, authorized to issue in payment for such properties which it is herein authorized to acquire, not exceeding \$42,200.00 face value of its first mortgage

6 per cent. bonds due March 1, 1952, and that any amount which the company pays in excess of \$40,000.00 for the properties must be charged to its profit and loss account.

The authority herein granted is subject to further conditions as follows:-

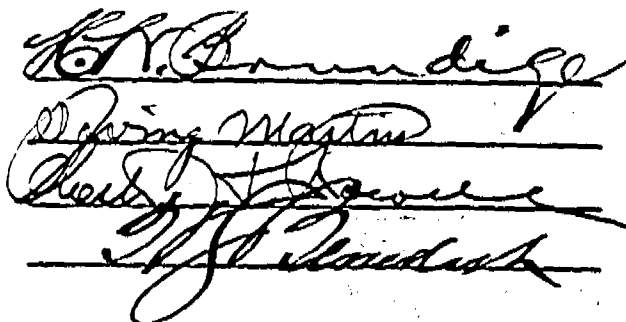
1.-- The consideration which may be paid by the Coast Valleys Gas and Electric Company for the properties of the Del Monte Light and Power Company shall not be urged before this Commission, or any other public body having jurisdiction, as a measure of the value of said properties for the purpose of fixing rates or for any purpose other than the transfer herein authorized.

2.-- The authority herein granted will not become effective until applicants have filed with the Commission in satisfactory form a statement showing the manner in which the consumer's deposits received by the Del Monte Light and Power Company will be accounted for and the consumers interest protected.

3.--The authority herein granted will apply only to such property as may be sold and transferred on or before February 1, 1923.

The foregoing Opinion and Order and 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 29<sup>th</sup> day of November, 1922.

  
Commissioners.