

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 authorizing the purchase by
said Coast Counties Gas & Electric
Company of all of the capital stock
of GILROY GAS WORKS.

Application No. 142.

S. W. Coleman for Coast Counties Gas & Electric Company.
Walter G. Fitzgerald, City Attorney, for City of Gilroy.

THELEN, Commissioner.

OPINION.

Coast Counties Gas & Electric Company, hereafter called the Coast Counties Company, applies to this Commission for permission to purchase for \$25,000 cash the entire authorized and issued capital stock of Gilroy Gas Works, a corporation, having a par value of \$50,000.

The Coast Counties Company was incorporated on March 21, 1912. It is not necessary in this application to investigate the consideration paid or received for the \$2,000,000 of capital stock which was issued by said company between said date and March 23, 1912, the effective date of the Public Utilities Act. The company is engaged in the business of supplying gas and electrical energy for light, heat and power in portions of the counties of Santa Cruz, Monterey, San Benito and Santa Clara. It is at present operating the municipal electric plant of the City of Gilroy, under a lease from the city, and desires to operate also the municipal gas plant for the purpose of economy of operation and profit.

The gas plant in the city of Gilroy is owned by the municipality. On April 17, 1909, the city entered into a contract with L. P. Lowe, by which the city leased its gas plant to Lowe for ten years. Lowe agreed, among other things, to install a complete

plant for the manufacture of gas, to have a capacity of at least six thousand cubic feet per hour, at a cost of not to exceed \$12,500; also to install steel compression tanks of a capacity sufficient to hold twenty thousand cubic feet of free gas when suitably compressed and a gas compressor; also to install street mains of designated lengths on specified streets from time to time as needed; and to install additional street mains as needed. Lowe was to report to the city "detailed descriptions and specifications of machinery and materials used in equipping the gas making plant, the extension of street mains, service connections, meters and all other appurtenances applying to the manufacture and distribution of gas, together with the cost thereof." Lowe agreed to pay to the city of Gilroy annually 5% of the gross receipts from all gas sales, with a minimum of \$500 each year, and the city is given the option, at the expiration of the lease, of buying all the additions, extensions and improvements at a price to be agreed upon or settled by arbitration, with the proviso that the parties or arbitrators are not to consider the amount of business done by the lessee in fixing the valuation.

Mr. Lowe assigned this lease to Gilroy Gas Works, a California corporation, which was created on April 28, 1909, and which has continuously operated the plant. The city understood at the time the lease was made that Mr. Lowe would form a corporation for this purpose. This corporation's authorized capital stock is 500 shares of the par value of \$100 each, making a total par value of \$50,000. This stock is now owned by L. P. Lowe and D. O. Druffel, who have agreed to sell it to the Coast Counties Company for \$25,000 cash. The amount of \$25,000 represents the sum of \$22,119.94, which the Gilroy Gas Works claims to have spent for additions, improvements and extensions to the property under the agreement with the city, plus material on hand, furniture, tools and other personal property.

The city of Gilroy was represented at the hearing by Mr. Walter G. Fitzgerald, the city attorney, who was its mayor when the lease of the gas works was made. Mr. Fitzgerald stated that the city was willing that the Commission's consent to the proposed sale be given, provided that the sum of \$25,000, to be paid for the stock in the Gilroy Gas Works, be not deemed to represent the present value of the additions, improvements and extensions which have been made or be used against the city in any way in case the city should desire to take over such additions, extensions and improvements at the termination of the lease, and provided further that the Gilroy Gas Works furnish the city an itemized statement showing in detail satisfactory to the Commission the exact amount of money expended for plant and extensions of pipe lines or mains and other property, if any, separately, with the time of installation or construction, length and size of pipe lines and mains in each construction, and amount chargeable to each item. The city claims that the reports furnished prior to January 1, 1912 are defective in that they do not state in sufficient detail the items which the city claims should be specified in accordance with the provisions of the lease. In rendering its opinion in this case, the Commission does not undertake to express any opinion as to the value of the property of the Gilroy Gas Works, either in its original or in its present condition. The sum of \$25,000 does not necessarily bear any fixed relation to that value. I regard the city's request with reference to more detailed reports from the Gilroy Gas Works as a reasonable request. The Coast Counties Company, by its general manager, agreed at the hearing to both ^{of} the conditions suggested by the city.

The consolidation of management of both the electric lighting plant and the gas plant should result in more economical management. By reason of this fact and of the further facts that the interests of the city of Gilroy will be fully protected and that the city consents to the transaction under the conditions hereinbefore specified, I see no objection to the application and recommend

that it be granted subject to the conditions in the order specified.

I submit herewith the following form of order:

O R D E R.

COAST COUNTIES GAS & ELECTRIC COMPANY having filed its application to purchase for \$25,000 in cash the total authorized and issued capital stock of Gilroy Gas Works, consisting of 50,000 shares, now owned by L. P. Lowe and D. O. Druffel, and a public hearing having been held on said application, and the city of Gilroy appearing and consenting that said application be granted, subject to the conditions hereinafter specified, and it appearing that public convenience and necessity will be subserved by the grant of the application,

IT IS HEREBY ORDERED that said application be and the same is hereby granted, subject to the following express conditions:

1. The price for which said stock is to be purchased, namely, \$25,000 in cash, shall not be used before this Commission or any other public authority as representing, for rate fixing or for any other purpose, the present value of the property of Gilroy Gas Works, or as bearing any necessary relation thereto, and particularly this amount shall not be used against the city of Gilroy in any possible purchase of said property by the city. The purchase of said stock by the Coast Counties Gas & Electric Company will be taken as a consent by that company to this condition.

2. Before said sale may be consummated, Gilroy Gas Works shall first have filed with the city of Gilroy a statement or statements, satisfactory to this Commission, showing as far as possible the exact amount of money expended for plant and extensions of pipe lines or mains and other property, if any, separately, with the time of installation or construction, length and size of pipe lines and mains in each construction, and amount chargeable to each item.

When such statement or statements have been filed, the Commission will advise applicant by letter, whereupon, but not before, the sale may be consummated.

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 14th day of August, 1912.

John M. Eschleiman
H. L. Loveland
W. L. Gordon
Max Thelen

Commissioners.