

ORIGINAL

Decision No. 3380

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application  
of SAN DIEGO CONSOLIDATED GAS AND  
ELECTRIC COMPANY for an order  
authorizing the purchase of capital  
stock of OCEANSIDE ELECTRIC AND GAS  
COMPANY. ) Application No. 2290.

Chickering & Gregory, by Allen L. Chickering, for  
San Diego Consolidated Gas & Electric Co.

TERLEN, Commissioner.

O P I N I O N.

This is an application by San Diego Consolidated Gas and Electric Company for an order authorizing the purchase by said Company of the capital stock of Oceanside Electric and Gas Company, or so much thereof as petitioner is able to purchase, at the price of \$14.00 per share.

The petition alleges, in effect, that San Diego Consolidated Gas and Electric Company is engaged in the business of manufacturing and selling gas and electric energy in the City of San Diego and its surrounding territory, having a total area of about six hundred square miles in San Diego County; that petitioner's lines for the transmission of electric energy now extend north of San Diego a distance of between twenty-one and twenty-two miles to and including the town of Del Mar; that in the City of Oceanside, some twenty miles north of Del Mar, Oceanside Electric and Gas Company is engaged in the business of selling electric energy for light, power and other purposes; that petitioner has obtained an option to purchase more than two thirds of the issued and outstanding capital stock of Oceanside Electric and Gas Company at the price of \$14.00 per share; that Oceanside Electric and Gas Company has issued a total of 1,819 shares of its capital stock of the par value of \$10.00 per share and that petitioner expects to be

able to purchase practically all said capital stock; that if petitioner is successful in acquiring the capital stock of Oceanside Electric and Gas Company the property of said Oceanside Electric and Gas Company will thereafter be conveyed by said company to petitioner herein and become a portion of its system; that after the acquisition of said property petitioner expects to extend its present transmission lines from Del Mar to Oceanside, and thereafter to serve therefrom the City of Oceanside and surrounding territory and the territory between Del Mar and Oceanside; that petitioner believes that the execution of this plan will be advantageous to all parties and particularly that petitioner expects to be able to finance more satisfactorily than is now done the construction of necessary extensions and improvements in the territory now being served by Oceanside Electric and Gas Company and to furnish to the present consumers of Oceanside Electric and Gas Company a better and more satisfactory service; that petitioner believes that practically all the stockholders of Oceanside Electric and Gas Company are willing to sell their stock to petitioner for the price of \$14.00 per share; that the aggregate price to be thus paid by petitioner for the capital stock of Oceanside Electric and Gas Company will not exceed the cost of said company's property; and that the liabilities of Oceanside Electric and Gas Company, to be assumed by petitioner, aggregate about \$12,000.00. Petitioner asks that the Railroad Commission make its order authorizing the acquisition by petitioner of all the outstanding capital stock of Oceanside Electric and Gas Company or so much thereof as petitioner is able to purchase at the price of \$14.00 per share.

A public hearing herein was held on May 24, 1916, at which time this application was submitted.

A report on the property of Oceanside Electric and Gas Company, prepared by Assistant Engineer Paul Thelon, was introduced in evidence and marked Railroad Commission's Exhibit No. 1.

The following table shows the investment made by Oceanside Electric and Gas Company in its property up to December 31, 1915:

Table No. I.

Investment in Property of Oceanside Electric  
and Gas Company - December 31, 1915.

|    |                                |                  |
|----|--------------------------------|------------------|
| 1. | Real Estate and Buildings..... | \$ 6,677.72      |
| 2. | Outside Construction.....      | 6,446.00         |
| 3. | Transmission Capital.....      | 5,261.74         |
| 4. | Distribution Capital.....      | 726.55           |
| 5. | General Capital.....           | 305.88           |
| 6. | Tools and Fixtures.....        | <u>741.06</u>    |
|    | Sub Total .....                | \$20,158.95      |
| 7. | Production Plant.....          | <u>14,763.52</u> |
|    | Sub Total .....                | 34,922.47        |
|    | Franchise .....                | <u>25.00</u>     |
|    | Grand Total.....               | \$34,947.47      |

The assets and liabilities of Oceanside Electric and Gas Company as of December 31, 1915, are reported by said company in its annual report to this Commission for the year 1915 to be as follows:

Table No. II.

Assets and Liabilities of Oceanside Electric  
and Gas Company - Dec. 31, 1915.

ASSETS.

|                                |               |
|--------------------------------|---------------|
| Fixed Capital Installed.....   | \$34,947.47   |
| Cash and Deposits.....         | 222.13        |
| Due from consumers.....        | 1,762.43      |
| Material and Supplies.....     | 416.89        |
| Prepaid Taxes .....            | 201.58        |
| Prepaid Insurance .....        | 126.05        |
| Miscellaneous (bond exp.)..... | <u>329.85</u> |
| Total Assets.....              | \$38,006.40   |

LIABILITIES.

|  |                 |
|--|-----------------|
| Capital Stock.....   | \$18,190.00     |
| Assessments Nos. 1 and 2.....                                  | 3,638.00        |
| Notes Payable.....   | 12,042.00       |
| Audited Vouchers, wages unpaid.....                            | 249.55          |
| Miscellaneous Accounts Payable.....                            | 236.78          |
| Interest Accrued.....  | 229.74          |
| Corporate Surplus Appropriated Since<br>December 31, 1912..... | 1,656.43        |
| Corporate Surplus Unappropriated.....                          | <u>1,763.90</u> |
| Total Liabilities..  | \$38,006.40     |

The following table shows the cost to reproduce new and the cost of reproduction less depreciation of the property of Oceanside Electric and Gas Company as of May 19, 1916, as estimated by Assistant Engineer Thelen:

Table No. III.

Estimated Cost to Reproduce and Cost of Reproduction  
Less Depreciation of the Property of Oceanside  
Electric and Gas Company - May 19, 1916.

|   | <u>Cost to</u><br><u>Reproduce</u> | <u>Cost to</u><br><u>Reproduce New</u><br><u>Less Depreciation.</u> |
|---|------------------------------------|---|
| Real Estate.....                        | \$ 8,000.00                        | \$ 8,000.00   |
| Bath House and Electric Power Building. | 6,371.00                           | 3,823.00  |
| Transmission and Distribution System..  | 14,300.00                          | 12,512.00   |
| General Capital.....                    | 306.00                             | 245.00  |
| Tools and Fixtures .....                | 741.00                             | 445.00  |
| Materials and Supplies.....             | 417.00                             | 417.00  |
| Franchise.....                          | 25.00                              | 25.00   |
| Production Plant.....                   | <u>16,979.00</u>                   | <u>3,000.00</u>   |
| Total.....                              | \$47,139.00                        | \$28,467.00   |

The estimate of cost to reproduce less depreciation shown in Table No. III is based on a possible abandonment of the production system of Oceanside Electric and Gas Company. San Diego Consolidated Gas and Electric Company, the proposed purchaser, presented testimony to show that it will probably dispose of the Bath House property, in which event the total estimated cost less depreciation of the operative property would be approximately \$24,644.00.

The following table shows the revenues and expenses of Oceanside Electric and Gas Company for the years ending December 31, 1913, 1914, and 1915, as reported by said company to the Railroad Commission in its annual reports:

Table No. IV.

Revenues and Expenses of Oceanside Electric and Gas  
Company for years ending Dec.31,1913,1914 and 1915.

|                         | <u>1915</u>       | <u>1914</u>       | <u>1913.</u>      |
|-------------------------|-------------------|-------------------|-------------------|
| Operating revenue       | \$7,103.15        | \$7,403.55        | \$7,113.99        |
| Operating expenses      | <u>6,522.29</u>   | <u>7,399.09</u>   | <u>6,233.74</u>   |
| Net operating revenue   | \$ 580.86         | \$ 4.47           | \$ 880.25         |
| Non-operating Revenues: |                   |                   |                   |
| Bath House              | <u>\$1,929.16</u> | <u>\$1,498.55</u> | <u>\$1,835.95</u> |
| Gross corporate income  | \$2,510.02        | \$1,503.02        | \$2,716.20        |
| Deductions:             |                   |                   |                   |
| Interest                | \$1,088.55        | \$ 935.16         | \$ 832.22         |
| Bathhouse expense       | <u>\$ 481.94</u>  | <u>\$ 479.78</u>  | <u>\$ 556.16</u>  |
| Total Deductions        | <u>\$1,570.49</u> | <u>1,414.94</u>   | <u>\$1,388.38</u> |
| Net Income.....         | \$ 939.53         | \$ 88.08          | \$1,327.82        |

It should be observed that Oceanside Electric and Gas Company has set aside no depreciation reserve.

The following table shows the surplus account of Oceanside Electric and Gas Company for the years ending December 31,1913, 1914 and 1915, as reported by said company in its annual reports on file with the Railroad Commission:

Table No. V.

Surplus of Oceanside Electric and Gas Company  
for years ending Dec.31,1913,1914 and 1915.

|                           | <u>1915</u>   | <u>1914</u>  | <u>1913</u>       |
|---------------------------|---------------|--------------|-------------------|
| Surplus beginning of year | \$ 824.37     | \$ 736.29    | \$1,064.90        |
| Net income for year       | <u>939.53</u> | <u>88.08</u> | <u>1,327.82</u>   |
| Surplus plus additions    | \$1763.90     | \$ 824.37    | \$2,392.72        |
| Deductions                | <u>-</u>      | <u>-</u>     | <u>\$1,656.43</u> |
| Surplus at end of year    | \$1,763.90    | \$ 824.37    | \$ 736.29         |

Oceanside Electric and Gas Company has an authorized issue of 2500 shares of capital stock of the par value of \$10.00 per share, of which amount 1819 shares are issued and outstanding. The issued shares were sold at par. In addition to the sum of \$18,190.00 derived from the sale of its capital stock, the sums of \$3638.00 secured from two assessments on the capital stock, \$12,042.00 from promissory notes of Oceanside Electric and Gas Company and corporate surplus reported by Oceanside Electric and Gas Company to be \$3,420.00, have been invested in the property, thus giving a total investment of \$37,290.00.

San Diego Consolidated Gas and Electric Company has secured options on the entire issued capital stock of Oceanside Electric and Gas Company at the price of \$14.00 per share. The purchaser will, of course, take the property subject to the outstanding indebtedness, which amounts to approximately \$12,500.00. When this indebtedness has been paid, the investment of San Diego Consolidated Gas and Electric Company in the property as it now stands will accordingly total \$37,906.00.

San Diego Consolidated Gas and Electric Company proposes to construct a transmission line from the town of Del Mar, in San Diego County, the company's present northern terminus, to Oceanside, a distance of approximately 19.3 miles by the State Highway, and 18 miles by the proposed pole route, at an approximate cost of \$37,000.00, and thereafter to serve the territory from the steam plant of San Diego Consolidated Gas and Electric Company, located in San Diego.

Oceanside Electric and Gas Company at present serves the territory within the city limits of Oceanside and also a portion of the San Luis Rey Valley. Service is rendered only from sundown to midnight.

Oceanside Electric and Gas Company reports that during the year ending December 31, 1915, it had 162 residence lighting

consumers, 65 commercial lighting consumers, 1 municipal lighting consumer and 6 agricultural power consumers. The rate for electric lighting service is 20 cents per K.W.H., with a minimum charge of \$1.00 per meter per month, and certain discounts for prompt payment, beginning with a 5 per cent discount on bills of \$2.00 and under \$5.00. The rate for power service is a block rate beginning with 8 cents per K.W.H. for the first 100 K.W.H. or less and running down to 2 cents per K.W.H. for <sup>all</sup> electric energy in excess of 1000 K.W.H., with a minimum bill of \$1.00 per month per horse power connected.

San Diego Consolidated Gas and Electric Company hopes to secure some business between Del Mar and Oceanside in and about the towns of Cardiff, Encinitas and Carlsbad, which communities at the present time are without electric service. The company also expects to secure some substantial additional pumping business in Oceanside, including approximately 100 horse power from South Coast Land Company and 150 horse power from the city of Oceanside's municipal steam pumping plant.

A representative of San Diego Consolidated Gas and Electric Company testified at the hearing that the company considers the rates now charged by Oceanside Electric and Gas Company as being high and that it intends to adjust these rates. The company did not desire to make a statement at the present time as to what the new rates will be, but this matter will be fully considered by the Railroad Commission in Application No. 1925, being an application of San Diego Consolidated Gas and Electric Company to have the Railroad Commission establish all the rates, rules and regulations to be charged and observed by said company, which application is now pending before the Railroad Commission.

It is, of course, clear that on the basis of the earnings which Oceanside Electric and Gas Company has hitherto made, the property is worth considerably less than the amount which



San Diego Consolidated Gas and Electric Company proposes to pay for it. The latter company, however, expects to make the property more valuable by giving better service at lower rates and by building up additional business. If San Diego Gas and Electric Company desires to acquire the capital stock of Oceanside Electric and Gas Company for the consideration hereinbefore stated, there is no reason, on the facts of this case, why the company should not be permitted to do so, provided no injustice is done to any class of its consumers and that such excess cost, if any, as may hereafter be determined is being paid in excess of the actual value of the property, shall be borne by San Diego Consolidated Gas and Electric Company itself and not by its consumers. The question as to the extent to which the investment which San Diego Consolidated Gas and Electric Company expects to make in the purchase of the capital stock of Oceanside Electric and Gas Company and in the construction of the transmission line from Del Mar to Oceanside may hereafter be capitalized by San Diego Consolidated Gas and Electric Company and the extent, if any, to which the portion of such investment shall be amortized, may well be left for consideration hereafter, when San Diego Consolidated Gas and Electric Company files a formal application for authority to issue securities against this investment.

It should be said, however, that as the result of the acquisition of Oceanside Electric and Gas Company by San Diego Consolidated Gas and Electric Company, the people of Oceanside<sup>and vicinity</sup> will undoubtedly receive a much better service at rates which we may reasonably anticipate will be materially lower than those which they have hitherto paid. Furthermore, the territory between Del Mar and Oceanside, which hitherto has had no electric service, may look forward to receiving such service from San Diego Consolidated Gas and Electric Company. San Diego Consolidated Gas and Electric Company will thus be performing a substan-

tial public service, which fact should be borne in mind in the solution of the problems of capitalization and amortization to which reference has heretofore been made.

I submit the following form of order:

O R D E R.

SAN DIEGO CONSOLIDATED GAS AND ELECTRIC COMPANY having filed its application, under the provisions of Section 51 of the Public Utilities Act, for an order authorizing the purchase by San Diego Consolidated Gas and Electric Company of the entire issued capital stock of OCEANSIDE ELECTRIC AND GAS COMPANY, consisting of 1819 shares, at the price of \$14.00 per share, and a public hearing having been held and the Railroad Commission finding that the petition of San Diego Consolidated Gas and Electric Company should be granted, subject to the conditions hereinafter set forth,

IT IS HEREBY ORDERED that SAN DIEGO CONSOLIDATED GAS AND ELECTRIC COMPANY be and the same is hereby authorized to purchase the entire issued capital stock of OCEANSIDE ELECTRIC AND GAS COMPANY, consisting of 1819 shares, for the sum of \$14.00 per share, on the following conditions and not otherwise, to-wit:

1. Said price of \$14.00 per share to be paid for the capital stock of Oceanside Electric and Gas Company shall never be urged by San Diego Consolidated Gas and Electric Company, its successors or assigns, before the Railroad Commission or any court or other public body, as representing in any proceeding, for rate making or otherwise, the present fair value of the capital stock of Oceanside Electric and Gas Company.

2. The authority herein granted to San Diego Consolidated Gas and Electric Company to purchase the capital stock of Oceanside Electric and Gas Company shall not be effective until the Railroad Commission shall have made a supplemental order

herein reciting that San Diego Consolidated Gas and Electric Company has filed herein a stipulation, duly authorized by its board of directors, and in form satisfactory to the Railroad Commission, declaring that San Diego Consolidated Gas and Electric Company, its successors and assigns, will never claim before the Railroad Commission or any court or other public body any value for the franchises and permits of Oceanside Electric and Gas Company in excess of the actual cost of acquiring said franchises <sup>and permits</sup> by Oceanside Electric and Gas Company, which cost is represented by San Diego Consolidated Gas and Electric Company to have been the sum of \$25.00.

3. On or before the 25th day of each month until all the issued capital stock of Oceanside Electric and Gas Company shall have been acquired by it, San Diego Consolidated Gas and Electric Company shall make a verified report to the Railroad Commission stating the number of shares of capital stock of Oceanside Electric and Gas Company purchased by it and the price paid therefor.

4. The authority hereby granted shall apply only to such capital stock of Oceanside Electric and Gas Company as may have been acquired by San Diego Consolidated Gas and Electric Company on or before September 1, 1916.

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 26<sup>th</sup> day of May, 1916.

Max Shelden  
W. J. Overland  
W. J. Overland

Commissioners.