

Decision No. _____

ORIGINAL

Decision No. 4332

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

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In the matter of the application of :
SOUTHERN CALIFORNIA EDISON COMPANY :
to purchase certain securities of :
PACIFIC LIGHT AND POWER CORPORATION :
and VENTURA COUNTY POWER COMPANY; to :
acquire the properties and franchises : App. No. 2651.
of PACIFIC LIGHT AND POWER CORPORATION :
and to issue stock, and of PACIFIC :
LIGHT AND POWER CORPORATION to sell :
its properties and franchises to :
SOUTHERN CALIFORNIA EDISON COMPANY. :

H. H. Trowbridge and Harry J. Bauer
for Southern California Edison
Company.

Gibson, Dunn & Crutcher, J. Gibson,
Jr. and S. M. Haskins for Pacific
Light and Power Corporation.

EDGERTON, Commissioner

O P I N I O N

Applicants seek authorization permitting Pacific
Light and Power Corporation to sell all of its property
including franchises to Southern California Edison Company;
the latter company to purchase all of said property and
certain of the capital stock of said Pacific Light and
Power Corporation and stock of Ventura County Power Com-
pany and to issue therefor stocks and securities as here-
inafter set out.

The purpose of applicants is to bring about the
complete consolidation of the properties and business of
these companies under the corporate entity of Southern
California Edison Company.

It is proposed that Southern California Edison Company purchase 46,175 shares of first preferred capital stock, 96,602 shares of the second preferred stock and 104,685 shares of the common stock, all of the par value of \$100 each, of Pacific Light and Power Corporation and 3,417½ shares of the preferred stock and 7,045 shares of the common stock, all of the par value of \$100 each, of Ventura County Power Company and \$5,000,000 face value of First and Refunding bonds of Pacific Light and Power Corporation and notes and accounts of Pacific Light and Power Corporation to the amount of \$1,096,048.41; said Edison Company to pay therefor the sum of \$4,000,000 in cash and 120,299 shares of the par value of \$100 of its second preferred five percent. cumulative non-participating capital stock. This would leave outstanding in the hands of the public capital stock of Pacific Light and Power Corporation of a par value as follows:

First preferred	\$382,500.
Second preferred	314,800.
Common	91,000.
	<u>\$788,300.</u>

and shares of the capital stock of Ventura County Power Company of a par value as follows:

Preferred	\$ 9,030.
Common	1,560.
	<u>\$10,590.</u>

Also Southern California Edison Company proposes to purchase from Pacific Light and Power Corporation all of its properties and franchises, paying therefor to Pacific Light and Power Corporation 114,218 shares of the common stock of Southern California Edison Company of a par value of \$100 each.

It is not proposed at the present time that the property of Ventura County Power Company be transferred to Southern California Edison Company but the latter company is purchasing nearly all of its outstanding capital stock and the only estimate of the value of this stock which has been presented in this proceeding is that of the engineers of applicants who place its value at \$314,800.90.

The entire property and business of Southern California Edison Company have been exhaustively investigated and reported on in the proceeding whereby the City of Los Angeles requested that the Commission fix a price on the property of this company in the City of Los Angeles. Therefore the Commission has before it accurate data with relation to all of the affairs of this company.

The information before the Commission as to the other company, Pacific Light and Power Corporation, is very much less complete but is sufficient to enable the experts of the Commission to arrive at an approximate opinion as to the value of its property, which approximate result has been checked by comparison with Southern California Edison Company.

Mr. Arthur R. Kelley and Mr. George L. Hoxie, engineers, submitted in this proceeding a report on behalf of applicants setting out their opinion of the property values of Pacific Light and Power Corporation. The values are as of October 31, 1916. Applicants in laying before us their opinion of property values presented several methods of arriving at values. These

may be stated as follows:

(a) Investment Cost of Property
(as per applicant's statement No. 3)

1. Southern California Edison Company as at present	30,311,328.93
2. Pacific Light and Power Corporation as at present	32,921,392.38
3. Both companies as at present	63,232,721.31
4. Both companies, in combination as proposed	63,547,522.21
5. Difference between #3 and #4	314,800.90

This difference of \$314,800.90 is the estimated value of 3,417½ shares of preferred stock and 7,045 shares of common stock of the Ventura County Power Company as purchased by the Edison Company.

(b) Commercial Value of Properties, Rights, Franchises, etc.

(as per Hoxie-Kelley report of Mar. 31, 1916; plus additions Apr. 1 to Oct. 31, 1916; plus "Other Assets" as per applicant's statement No. 2)

Pacific Light and Power Corporation	36,995,822.10
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(The "commercial value" of Southern California Edison Company is not shown in the application)

(c) Reproduction Cost

A reproduction cost estimate is not submitted for either the Edison Company or the Pacific Corporation properties.

(d) Depreciated Value of Physical Property
(as per Hoxie-Kelley report Mar. 31, 1916)

Pacific Light and Power Corporation \$25,232,230.

This amount equals 84.4% of the estimated investment cost of the physical property as of March 31, 1916 (Hoxie-Kelley report) which amounted to \$29,925,570.28.

The "depreciated value of physical property" is not given for the Southern California Edison Company's property.

L. R. Reynolds, Auditor of the Commission, has submitted a report on the book cost of the property of

Pacific Light and Power Corporation and Southern California
Edison Company

Pacific Light and Power Corporation

In these figures the book cost of franchises, rights of way and water rights have been eliminated as not representing cash costs of same. There has been eliminated certain adjustments made on the books by reason of the J. G. White & Co. appraisal of July 1, 1912 and an item of \$137,766.60 representing retired property still on the books of the company.

Book values Mar. 31, 1916	\$29,593,958.72
Appreciation or depreciation to conform with J. G. White & Co's appraisal in July 1912	\$ 1,454,712.99
Book figure Mar. 31, 1916 after eliminating appreciation or depreciation	\$28,139,245.73
Add additions and betterments April 1 - October 30, 1916	497,391.15
	<u>28,636,636.88</u>
Less retired property remaining on books of the company	137,766.60
Book cost October 30, 1916	<u>\$28,498,870.28</u>

Southern California Edison Company

In connection with application No. 1424 Mr. Reynolds found the original book cost of this property to be as follows:

Physical plant	\$22,852,636.76
Intangible capital	1,156,459.28
Total	<u>24,009,096.04</u>
The actual book charges to capital account from June 30, 1915 to October 31, 1916 are	343,433.67
Resulting in a total book cost as of October 31, 1916 of	<u>\$24,352,529.71</u>

Mr. Richard Sachse, Chief Engineer of the Commission, made a report in which he sets out, among other things, his opinion of property values.

Mr. Sachse states in this report that to arrive at tentative totals he used the underlying data as were

used by applicants and that he made only a general check of the figures submitted in the application. He stated, however, that in his opinion there is no necessity for a long and detailed valuation investigation because his approximate figures will not vary by more than five percent. from the totals which would be found after making a standard valuation.

Combined Properties as of October 31, 1916

	Reproduction Cost	Reproduction Cost Less Depreciation
1. Pacific Light and Power Corporation	\$29,665,705.79	\$25,115,448.67
2. Southern California Edison Company	24,352,529.71	20,150,937.87
Totals	\$54,018,235.50	\$45,266,386.54

Mr. Sachse calls attention to the fact that his figures do not include any deduction for property which will not be useful, or may be less useful than now, after the consolidation, due to obsolescence, duplication, or any other element that may enter by reason of changed operating and commercial conditions.

Furthermore he says that neither the figures submitted by the engineers of applicants nor his figures reflect any result which may be brought about by the severance of a portion of both companies' properties through acquisition by the City of Los Angeles.

Mr. Paul A. Sinsheimer, Stock and Bond Expert of the Commission, estimates that there are net current assets of these two companies of a value of \$2,096,000. Mr. Sinsheimer states that in considering capitalization in relation to value, consideration should be given to reasonable and proper discounts honestly incurred in legitimate financing. He places the discount for the two companies at \$2,600,000.

Following is a statement of the outstanding stocks, bonds and debts of each of the companies and of both companies consolidated as proposed:

	Bonds and Debt	Stock Out- standing	Total Capital- ization and Debt
1. Southern California Edison Company.	19,843,101.64	14,405,500.00	34,248,601.64
2. Pacific Light and Power Corporation	25,573,996.30	25,534,500.00	51,108,496.30
3. Both, as at present.	45,417,097.94	39,940,000.00	85,357,097.94
4. Both, as proposed	44,321,049.21	27,020,572.00	71,341,621.21
5. Difference between #3 and #4	1,096,048.73	12,919,428.00	14,015,476.73

\$11,421,800.00 par value of common stock to be issued by Edison Company to Pacific Corporation is not included in the above because this stock is to go into the treasury of the latter company of which Edison Company will own all but a small amount of the stock. Applicants state that this is the only practicable method by which the interests of these minority Pacific Light and Power Corporation stockholders may be preserved, because of the bonded debt of this company it can not be dissolved.

Mr. Sinsheimer has analyzed the proposal of applicants with particular relation to the capitalization proposed and using for purposes of calculation Mr. Sachse's reproduction cost less depreciation figure of \$45,266,386.54 and adding thereto net current assets \$2,096,000. and deducting therefrom the net amount of bonds which will be outstanding he finds a remaining equity of \$11,932,386.54. To this he adds unamortized discounts of \$2,600,000. which gives a total net equity over the face of outstanding bonds of \$14,532,386.54.

As against this equity there will be outstanding:

Preferred stock	\$ 4,000,000.00
Second preferred stock	12,029,900.00
Common stock now outstanding	10,400,000.00
Common stock to be issued and which is taken into consideration in this computation	5,000,000.00

In addition, common stock will be issued to Pacific Light and Power Corporation of a par value of \$11,421,800.00. This stock, however, will be under the control of the Edison Company through its ownership of the stock of Pacific Light and Power Corporation. Because of a minority interest of Pacific Light and Power Corporation, applicants consider the equity not controlled by Southern California Edison Company will amount to \$585,172.00.

The total outstanding common stock therefore may be considered as \$15,985,172.

Deducting from the equity above mentioned the par value of preferred stock, \$4,000,000., leaves a balance of \$10,532,386.54 which may be considered back of the second preferred stock of \$12,029,900. or a percentage of approximately 90% of equity back of the second preferred stock, leaving nothing back of the common.

Mr. Sinsheimer has made another computation based upon the assumption that Southern California Edison Company will issue the \$5,000,000 of common stock recently authorized and with the proceeds retire \$5,000,000 of Pacific Light and Power Corporation bonds and \$1,096,000 of Pacific Light and Power Corporation floating debt. This computation which he urges is the most that could reasonably be claimed by applicants as to physical properties. He starts with the sum of \$54,018,235.50 as being the reproduction cost of the physical properties of both plants

upon which there is a general agreement. He deducts therefrom the depreciation set up by these companies to the first part of 1917 which amounts to \$5,550,503.22.

This works out as follows:

Reproduction cost new of combined properties- - - - -	\$54,018,235.50
Depreciation- - - - -	5,550,503.22
Depreciated reproduction cost - -	<u>48,467,732.28</u>
Net current assets- - - - -	2,096,000.00
Total Value - - - - -	<u>50,563,732.28</u>
Less face value of bonds- - - - -	<u>35,430,000.00</u>
Balance - - - - -	<u>15,133,732.28</u>
Discounts to be added for purposes of capitalization - - - - -	2,600,000.00
Total - - - - -	<u>\$17,733,732.28</u>

This is the equity to be measured against the stock.

Preferred stock - - - - -	4,000,000.00
	<u>\$13,733,732.28</u>
If we assume the second preferred stock of \$12,029,900. at 80 - -	9,623,920.00
This gives a balance of - - - -	<u>\$ 4,109,812.28</u>

This is the amount under this method of calculation which would be available in the form of physical property for the common stock.

The combined net earnings of Pacific Light and Power Corporation and Southern California Edison Company for the calendar year 1916 after the payment of fixed charges, taxes and an ample allowance for depreciation amounted to \$1,500,969.82 and this gives ample assurance that the consolidated company with a less capitalization will be able to meet all of its obligations and provide for some dividends and this without considering savings to be brought about by consolidation.

Southern California Edison Company states that it proposes to exercise rights under all of the franchises which it acquired from Pacific Light and Power Corporation so that this consolidation will not result in a diminution of the opportunity of the public to obtain service.

Southern California Edison Company and Pacific Light and Power Corporation are negotiating with the City

of Los Angeles to the end that the City will purchase from the companies their distributing systems located in that City and thereafter for the purchase of power from the companies. As this sale is not consummated it cannot now definitely be determined what effect this sale may have upon the financial affairs of the consolidated company. However, we may safely assume that the companies will amply safeguard their interests in any such transaction and in any event this Commission has jurisdiction to prevent such sale by withholding its sanction.

The advantages to the owners of the companies involved in this consolidation are obvious.

The Pacific Light and Power Corporation has a large hydro-electric development which is not and will not in the near future be put into full use unless this consolidation occurs. On the other hand Southern California Edison Company is using to capacity its hydro-electric installations and unless this consolidation occurs will be confronted with the almost immediate necessity of increasing its production of electric power. Therefore, by this consolidation there are brought together two systems which complement each other in this respect. The considerable surplus of power now possible of generation in the plant of Pacific Light and Power Corporation will be brought into use for the consumers of Southern California Edison Company and this will provide for a very considerable expansion of business by the consolidated company without the necessity for large expenditures in increasing production capacity.

Furthermore it is proposed to completely consolidate these plants and to operate thereafter as a

unified whole, thus greatly decreasing operating expenses.

It is estimated by applicants that there will be a saving in operating expenses for the first few years of approximately \$400,000 a year and the electrical engineers of this Commission believe that this statement of probable savings is very conservative and may be stated as a minimum. It is their belief that the savings will be very much greater as the plants are consolidated and operating expenses are cut down and business increases.

The benefits of this consolidation to the public will be the elimination of the necessity for duplicate facilities and the greater efficiency made possible by the serving of a great community by one plant and organization.

Furthermore, the great, and probably increasing, proportionate decrease in operating expenses will make it possible in the future for the consolidated company to serve its consumers at lower rates.

I believe it to be unnecessary in this proceeding to come to a definite conclusion as to the value of the properties involved. It is apparent from the showing made that the capitalization in relation to value of property is not such as would be sanctioned by this Commission if we were now considering the creation of a new public utility organization. But we cannot approach the matter from this standpoint because we are dealing with two existing institutions and we are informed by applicants that the proposed capitalization is as low as they have been able or will be able to bring about. In other words; that unless permitted to consolidate on the terms proposed, no consolidation is possible. Therefore we are confronted with a situation where by consolidation total capitalization

is considerably cut down and large savings are made in operating expenses and greater efficiencies will be brought about.

In my judgment this matter should be considered as a step in the right direction and as such should be sanctioned. It by no means should be considered a finality in the financial set-up of these consolidated organizations.

I would be unwilling to recommend that this application be granted as submitted with the understanding that the relationship between property and capitalization were to remain constant or as at present. I can recommend that this consolidation be authorized under the plan of capitalization contemplated only upon the condition that gradually the relationship between the property value and capitalization be brought to a more conservative basis. The applicant has asserted its desire and willingness to adopt such a course as a fixed policy to harmonize its financial framework with the general policies of this Commission.

I therefore recommend that this application be granted and submit herewith the following form or order:

O R D E R

Application having been made by Southern California Edison Company and Pacific Light and Power Corporation for an order authorizing Southern California Edison Company to purchase certain of the stock of Pacific Light and Power Corporation and Ventura County Power Company and to purchase the property of said Pacific Light and Power Corporation and for an order authorizing Pacific Light and Power Corporation to sell all of its property

and franchises to said Edison Company, all as set out in the foregoing Opinion, and public hearing having been had, the Commission being fully advised in the premises;

IT IS HEREBY ORDERED BY THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA that Southern California Edison Company is hereby authorized to purchase 46,175 shares of the first preferred capital stock, 96,602 shares of the second preferred capital stock and 104,685 shares of the common capital stock of Pacific Light and Power Corporation and 3,417 $\frac{1}{2}$ shares of the preferred capital stock and 7,045 shares of the common capital stock of Ventura County Power Company and 5,000 bonds of Pacific Light and Power Corporation issued under its first and refunding mortgage, each of the denomination of \$1000, and notes and accounts of Pacific Light and Power Corporation to the amount of \$1,096,048.41 and authorization is hereby granted said Southern California Edison Company to pay therefor the sum of \$4,000,000 in cash and in addition to issue and deliver therefor 120,299 shares of its second preferred five percent. cumulative non-participating capital stock.

Southern California Edison Company is further authorized to purchase from Pacific Light and Power Corporation all of its properties and franchises as a whole and to pay therefor, and for that purpose to issue to Pacific Light and Power Corporation 114,218 shares of the common capital stock, par value \$100 each of Southern California Edison Company.

For a full description of the property hereby authorized to be transferred, reference is had to the detailed description thereof attached to the application herein marked Exhibit A and filed in these proceedings.

Pacific Light and Power Corporation is hereby authorized to sell and transfer all of its property and franchises, as fully set out in said exhibit just above mentioned, to Southern California Edison Company.

This order is made upon the condition that Southern California Edison Company will hereafter amortize out of income such portion of its capitalization as the Commission shall direct. Southern California Edison Company shall on or before the 25th day of each month hereafter report all transactions had under this order.

Provided that the price at which the property herein mentioned is authorized to be purchased shall not be binding upon this Commission or any other public body as representing the value of such properties for rate making or other purposes.

Provided, further, that this order shall not become effective until Southern California Edison Company shall have filed with this Commission, for its approval, a stipulation, duly authorized by its board of directors, declaring that said Southern California Edison Company, its successors and assigns will never claim before the Railroad Commission or any court or other public body a value for the franchises herein authorized to be purchased by said Southern California Edison Company in excess of the cost of such franchises to the original grantee or grantees.

The foregoing Order and Opinion 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
22nd day of May, 1917.

Wm. T. Thelen

H. J. Gould

Edwin O. Edgerton

Stuart R. DeLoe
Commissioners.