

Decision No. _____

ORIGINAL

Decision No. 5249

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

* * *

In the Matter of the Application of
RIALTO LIGHT, POWER AND WATER COMPANY,
a corporation, and of THE SOUTHERN
SIERRAS POWER COMPANY, a corporation,
for an order or orders authorizing the
sale and transfer by said RIALTO LIGHT,
POWER AND WATER COMPANY to the said THE
SOUTHERN SIERRAS POWER COMPANY of the
property, assets and business of the
RIALTO LIGHT, POWER AND WATER COMPANY,
a public utility operating in and adja-
cent to the City of Rialto, San Bernar-
dino County, State of California.

Application
Number
3476.

I.B. Potter, Charles F. Potter and E.B. Criddle
for applicants.

BY THE COMMISSION:

OPINION.

RIALTO LIGHT, POWER AND WATER COMPANY in its amended application asks authority to sell to THE SOUTHERN SIERRAS POWER COMPANY for \$25,794.42 its properties described in Exhibit "D" attached to the original petition herein. The purchasing company joins in the application. The properties are to be transferred as of December 31, 1917. To the selling price is to be added the cost of any assets that may be acquired between December 31, 1917 and the date on which the Railroad Commission formally approves the sale of the properties, less such current liabilities as may be incurred within the same period.

A hearing was held on this application before Examiner Encell at Los Angeles on February 21, 1918.

Rialto Light, Power and Water Company was organized on or about October 7, 1907. The company has an authorized capital stock issue of \$10,000.00 divided into 400 shares of \$25.00 each. All of the stock is reported as outstanding. With the exception of the directors' qualifying shares, the stock is held by The Sierras Construction Company, a corporation, controlled by the same financial interests which control The Southern Sierras Power Company.

In the amended petition herein, Rialto Light, Power and Water Company's balance sheet as of December 31, 1917, shows the following:

ASSETS:

Property,	\$22,335.52
Property & Equipment 1-1-13,	10,598.14
Additions since 12-31-12,	11,737.38
Cash on Hand and in Banks,	328.78
Accounts Receivable,	506.54
Notes Receivable,	22.09
Materials and Supplies,	952.38
Unfinished Job Orders,	270.15
Unamortized Discount on Stock,	1,000.00
TOTAL ASSETS,	\$25,415.46

LIABILITIES:

Capital Stock,	\$10,000.00
Current Liabilities,	6,139.76
Taxes Accrued,	248.85
Vouchers Payable,	354.64
Consumers Deposits,	679.29
Miscellaneous,	4,856.98
Due The Southern Sierras Power Company,	839.31
Reserve for Accrued Depreciation,	1,200.00
Surplus,	7,236.39
TOTAL LIABILITIES,	\$25,415.46

The Southern Sierras Power Company, as said above, agrees to pay \$25,794.42 for the properties of the Rialto Light, Power and Water Company as of December 31, 1917. It will assume the payment of current indebtedness amounting to ~~24,999.07~~ ^{26,979.07}, leaving a balance of \$18,815.35 to be paid in cash. This purchase price is not based upon the original cost of the properties, but upon an appraisal of the properties by Halbert P. Gillette. Mr. Gillette in his appraisal estimates the reproduction cost of the properties as of

March 31, 1914 at \$19,155.00 and the reproduction cost less depreciation at \$16,749.00. In arriving at the latter figure, Mr. Gillette calculates the depreciation on a 5 per cent sinking fund basis. Exclusive of cash and deposits, materials and supplies and development costs, Mr. Gillette estimates the reproduction cost new of the properties less depreciation as of March 31, 1914 at \$14,133.00. In an exhibit attached to the amended petition herein, the Rialto Company reports that subsequent to March 31, 1914, it has expended for additions and betterments \$8,448.48.

The proposed purchase price of \$25,794.42 includes \$1,134.00 said to represent development costs up to March 31, 1914. H.P. Gillette, in calculating the development cost, allows a 10 per cent return. No claim is made for any development costs subsequent to March 31, 1914. The testimony shows that Rialto Light, Power and Water Company in 1912 paid \$1,500.00 dividends on its \$10,000.00 of outstanding stock, while in 1915 it paid \$5,000.00 in dividends. In addition to these dividend payments, the company on December 31, 1917 reported a reserve for accrued depreciation amounting to \$1,200.00 and an accumulated surplus of \$7,236.39. Apparently both the reserve and the surplus have been invested in property.

We do not believe it is necessary for the Commission in this proceeding to decide what amount, if any, should be allowed for development cost. This application involves neither the issue of securities nor the fixing of rates. It involves the transfer of the properties of Rialto Light, Power and Water Company to The Southern Sierras Power Company. Both the vendor and vendee are in the final analysis controlled by the same interests. The vendor has agreed to sell and the vendee to purchase

the properties at \$25,794.42. While the Commission is willing to authorize the transfer of the properties at that price, it should be distinctly understood that in doing so, the Commission in no way passes either on the amount or the propriety of a development cost. Moreover, while the Commission is willing to authorize the transfer of the properties, it does not follow from the authority herein granted that the transfer price is either a proper capital charge or a proper basis on which to predicate rates.

The testimony in this proceeding shows that the rates now charged by the Rialto Light, Power and Water Company differ somewhat from the rates of The Southern Sierras Power Company. The purchasing company proposes to put into effect its regular rates in so far as this can be done without raising any rates.

It appears that the Rialto Light, Power and Water Company is operating under a 50-year franchise granted by the City of Rialto. It is the intention of The Southern Sierras Power Company to continue operations under this franchise. In view of this situation, we believe that the purchasing company should file with the Railroad Commission a copy of the franchise together with a stipulation duly authorized by its Board of Directors in which it agrees that neither it, its successors or assigns will ever claim before the Railroad Commission or any other public body a value for said franchise in excess of the amount actually expended by the Rialto Company in acquiring the franchise and the rights and privileges granted thereby.

RIALTO LIGHT, POWER AND WATER COMPANY and THE SOUTHERN SIERRAS POWER COMPANY having applied to the Railroad Commission for an order authorizing the sale and transfer of properties referred to in the foregoing opinion, a hearing having been held and the Commission being of the opinion that this application should be granted.

IT IS HEREBY ORDERED that Rialto, Light, Power and Water Company be, and it is hereby granted authority to sell to The Southern Sierras Power Company for the consideration which is specified in the opinion which precedes this order, all property of whatever character owned or controlled by said Rialto Light, Power and Water Company.

The authority herein granted is upon the following conditions and not otherwise:

(1).-- Before the authority herein granted to transfer properties shall become effective, The Southern Sierras Power Company shall file with the Railroad Commission a stipulation duly authorized by its Board of Directors, in which stipulation The Southern Sierras Power Company agrees that neither it, its successors or assigns will ever claim before the Railroad Commission or other public body a value for the franchise to be acquired from the Rialto Light, Power and Water Company pursuant to the authority herein granted in excess of the amount actually paid to the City of Rialto as the consideration for the grant of such franchise, which amount shall be set forth in the stipulation and shall have obtained from the Railroad Commission a supplemental order declaring that such stipulation in form satisfactory has been filed with the Railroad Commission.

(2) The authority herein granted shall not become effective until the Railroad Commission has approved the bookkeep^{ing}

entries relative to the transfer of the properties herein authorized to be sold.

(3).— The Southern Sierras Power Company shall file with the Railroad Commission a copy of the franchise acquired from the Rialto Light, Power and Water Company.

(4).— The price at which The Southern Sierras Power Company is herein authorized to acquire the properties of the Rialto Light, Power and Water Company shall never be urged upon the Railroad Commission, or other public body, as a measure of value on which to base rates, issue securities or for any other purpose.

(5).— Within thirty days after the transfer of the properties herein authorized, The Southern Sierras Power Company shall file a verified copy of the deed of conveyance.

(6).— The authority herein granted shall apply only to such property as shall be transferred on or before September 1, 1918.

Dated at San Francisco, California, this 27th day of March, 1918.

Max. The late
H. J. Lavalais
Oliver Gordon

Commissioners.