

THE NEXT

DOCUMENTS ARE

POOR ORIGINALS

MICROFILMING SERVICES

will not assume responsibility

for the image quality

Decision No. 7037.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF
THE STATE OF CALIFORNIA.

---oOo---

In the Matter of the Application of)
SIERRA AND SAN FRANCISCO POWER COMPANY,)
a corporation, and the)
PACIFIC GAS AND ELECTRIC COMPANY,)
a corporation, for an order of the)
Railroad Commission of the State of)
California, authorizing the SIERRA AND)
SAN FRANCISCO POWER COMPANY to lease to)
the PACIFIC GAS AND ELECTRIC COMPANY,)
all its properties, franchises and per-)
mits, used or useful in its business of)
generating, distributing and selling)
electric energy and in its business of)
impounding, distributing and selling)
water.)

Application
Number
5146.

Chickering & Gregory, by Warren K. Gregory, for Sierra
and San Francisco Power Company;
W. B. Bosley and C. P. Cutten, for Pacific Gas and
Electric Company;
Connick & Kehoe, for Universal Gas and Electric Company,
and Rudolph Spreckels, a bondholder of the
Sierra and San Francisco Power Company.

MARTIN, Commissioner.

OPINION.

The Railroad Commission is asked to authorize SIERRA
AND SAN FRANCISCO POWER COMPANY to lease, pursuant to the terms
and conditions of the agreement filed herein and marked Exhibit "D",
all of its operative properties to the PACIFIC GAS AND ELECTRIC
COMPANY.

Sierra and San Francisco Power Company is engaged in
the distribution and sale of water for mining, agriculture, manu-
facturing, domestic and other purposes in Tuolumne County in Cali-
fornia, and in the distribution and sale of electricity for lighting,

heating and general power purposes in the "Mother Lode District" of Tuolumne and Calaveras Counties; in Stanislaus, San Joaquin, Contra Costa, Alameda, Santa Clara, San Benito and Monterey Counties, and in the City and County of San Francisco. During 1918, its gross revenues are reported at \$1,949,056.87, of which about 97% represent earnings from the sale of electricity and 3% earnings from the sale of water. Approximately 62% of the earnings from the sale of electricity were obtained from the United Railroads of San Francisco. The company's hydro-electric plants have a generating capacity of 36,840 K.V.A., its steam plants 22,000 K.V.A., making a total generating capacity of 58,840 K.V.A.

Sierra and San Francisco Power Company reports \$20,000,000 of stock and \$17,000,000 of bonds outstanding. The bonds consist of \$7,500,000 of first mortgage 5's, of \$1,000,000 Series "A" 6's and \$8,500,000 Series "B" 5's. All of the company's stock, except shares necessary to qualify directors, is owned by the California Railway and Power Company, which has given its consent to the execution of the lease.

On May 2, 1918, the Railroad Commission by Decision No. 5376, (Vol. 15, Opinions and Orders of the Railroad Commission of California, pg. 662) made an order authorizing Sierra and San Francisco Power Company to issue and sell at not less than 80% of their face value and accrued interest, \$1,000,000 of its first mortgage bonds. The company has been unable to sell the bonds at an advantageous figure, and therefore, found it impossible to undertake the construction work outlined in the decision. The inability of the company to secure adequate funds to carry forward its development program is, according to the record, one of the principal reasons for the execution of the lease.

It is urged that the lease, as drawn, is primarily designed to carry out the idea which has been advanced in this state very insistently by the Railroad Commission to the effect that the

service to the community was a first charge upon public utilities; that it takes care of the property so that it shall be properly maintained and returned to the lessor in full operative condition and that it protects the security holders and stockholders in a fair manner.

The lease is to run for a term of 15 years. During this period, the Pacific Gas and Electric Company agrees to properly maintain and operate the properties and pay the cost of such maintenance and operation; pay all taxes and governmental charges; pay annually \$30,000 into a fund to amortize bond discount and expense, -this amount to be increased if additional bonds are issued by the Sierra and San Francisco Power Company for the purposes hereinafter indicated; pay into a special depreciation fund an amount equal to 2% of the gross revenues obtained by the Pacific Gas and Electric Company from the leased properties, or such other amount as may be fixed by the Railroad Commission; pay bond interest, and pay as rental \$50,000 during the first year of the lease, \$50,000 during the second, \$100,000 during the third and \$150,000 annually during the remaining life of the lease.

The lease contains provisions which are intended to make it impossible for the Pacific Gas and Electric Company to build up a competing company in the territory which the Sierra and San Francisco Power Company holds itself out to serve. The Pacific Gas and Electric Company undertakes to build all necessary extensions to and additions of the property, but such extensions and additions become the property of the Sierra and San Francisco Power Company. For any moneys expended by the Pacific Gas and Electric Company, it will have a lien upon the Sierra and San Francisco Power Company properties, subject of course, to the lien of that company's first and second mortgages.

The lease is drawn up on the theory that Sierra and San Francisco Power Company will issue and be able to sell from

time to time its first mortgage bonds, the proceeds of which must be used to pay Pacific Gas and Electric Company. If it is impossible to sell the bonds, the lease provides that they shall be delivered to Pacific Gas and Electric Company and held by it as collateral security for the payment of any advances made during the term of the lease.

The presiding commissioner recommends the execution of the lease and its approval by the Commission, but it should be distinctly understood that such recommendation does not carry with it any authority to issue bonds, nor should the authority herein granted be interpreted as in any way modifying the order in Decision Number 5376, dated May 2, 1918. Any proceeding for the issue of bonds by the Sierra and San Francisco Power Company is a matter entirely separate and distinct from the execution of this lease, and the terms and conditions under which the Commission might authorize the issue of bonds depend upon the facts and circumstances existing at the time when an application for permission to issue bonds is submitted to the Railroad Commission.

Pacific Gas and Electric Company agrees to pay into a special depreciation fund a sum equal to 2% of the gross operating revenues from the leased properties, or such other amount as may be fixed by the Railroad Commission. The amount paid into this special depreciation fund is intended to take care of the depreciation of the properties that may accrue but which was not realized during the term of the lease. Any monies paid into the special depreciation fund become the property of the Sierra and San Francisco Power Company, and under the terms of the lease may be invested in extensions, additions and betterments or securities of other corporations. Pacific Gas and Electric Company may also establish a general depreciation reserve for the purpose of taking care of replacements which must be made during the life of the lease. Whether such general depreciation reserve is established or not, Pacific Gas and Electric

Company is obligated, under the lease, to maintain the properties in a good operating condition and return them in such condition to the Sierra and San Francisco Power Company at the end of the 15-year period. The Commission will give further consideration to the depreciation allowance when more complete evidence is submitted in future proceedings.

John A. Britton, vice-president and general manager of the Pacific Gas and Electric Company, testified that it was the present intention of that company to operate the properties of the Sierra and San Francisco Power Company along the same lines that the Pacific Gas and Electric Company is now operating the properties it owns.

Universal Gas and Electric Company and Rudolph Spreckels, a bondholder of the Sierra and San Francisco Power Company, were represented at the hearing by Connick & Kehoe. While counsel for the Universal Gas and Electric Company and Rudolph Spreckels conducted an extensive cross-examination, their apparent purpose was to ascertain whether or not the proposed lease properly takes care of the interests represented by their clients. No protest against the granting of the application was filed prior, during or subsequent to the hearing.

In the opinion of the presiding commissioner, the lease is distinctly in the interest of the public. For nearly two years the Sierra and San Francisco Power Company has been unable to install very necessary power plants and additional transmission and distribution lines, because of its inability to sell bonds. In the hope that the Railroad Commission would authorize the execution of the lease, considerable preliminary work has been done looking toward the installation of the so-called "Spring Gap Plant" 3 miles above the Sand Bar Flume on the Stanislaus River. Material has been ordered for a second transmission circuit from Port Marion to Salinas in order to improve the service conditions in Salinas and other territory served by the Coast Valleys Gas and Electric Company, which

purchases its electrical energy from the Sierra and San Francisco Power Company. Material has also been ordered to strengthen the line from Manteca to Modesto thence interconnecting from Modesto to Newman with provisions for an additional line to Turlock. Prior to the signing of the lease, the Sierra and San Francisco Power Company started the construction of an additional pipe line at its Stanislaus plant. The estimated cost of these four projects is reported to be in excess of \$1,000,000. The first unit of the Spring Gap Plant will have a capacity of 9,000 kilo watts, and assuming a 60% load factor would have a generating capacity of 49,000,000 kilo watt hours per annum. The installation of the additional pipe line at the Stanislaus plant, it is estimated, will result in an increased plant output of 15,000,000 kilo watt hours. The above listed additions and betterments will materially improve service and increase power supply, as well as reduce cost of operation.

No attempt has been made to discuss all the terms and conditions of the lease, and any one interested in such terms and conditions, should examine the lease itself.

I herewith submit the following form of Order.

O R D E R.

SIERRA AND SAN FRANCISCO POWER COMPANY having applied to the Railroad Commission for permission to lease its operative properties to the PACIFIC GAS AND ELECTRIC COMPANY, and PACIFIC GAS AND ELECTRIC COMPANY having joined in the application, a public hearing having been held and the Railroad Commission being of the opinion that such application should be granted subject to the terms and conditions of this order;

IT IS HEREBY ORDERED that SIERRA AND SAN FRANCISCO POWER COMPANY and PACIFIC GAS AND ELECTRIC COMPANY be, and they are hereby, authorized to make and execute a lease of the properties described in this application, such lease to be substantially upon

the same terms and conditions as the lease filed herein and marked Exhibit "D", -it being understood that such lease, so far as matters of accounts and the operation of the properties are concerned, will be dated as of midnight December 31, 1919, and it being further understood that the authority herein granted to execute such lease will not be interpreted as in any way limiting the jurisdiction of the Railroad Commission in matters which may hereafter be submitted to the Commission for determination.

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 17th
day of January, 1920.

Edwin O. Edgerton
H. D. Loveland
Frank H. Hill
H. R. Brundage
Iris M. Martin
Commissioners.