

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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ORIGINAL

In the matter of the application of Pacific Gas & Electric Company, a corporation, and Sierra and San Francisco Power Company, a corporation, for permission to transfer and convey, and of the Turlock Irrigation District and the Modesto Irrigation District to purchase and acquire, those certain properties known as the La Grange Power House, water right and conduit, and appurtenant rights and structures.) Application No. 7020

C. P. Cutton and Wm. B. Bosley, for Pacific Gas & Electric Company,

Chickering & Gregory, for Sierra and San Francisco Power Company,

P. H. Griffin, for Turlock Irrigation District,

J. M. Walthall, for Modesto Irrigation District.

ROWELL, Commissioner:

O P I N I O N

Pacific Gas and Electric Company; Sierra and San Francisco Power Company; Turlock Irrigation District and Modesto Irrigation District, all join in this application praying that the Railroad Commission approve a certain agreement whereby the two Irrigation Districts purchase all of the interest of the two Power Companies in a right to divert water from the Tuolumne River and a canal, penstock, power plant, etc., known as the La Grange water right and power plant.

Some years ago a predecessor in interest of the Sierra Company acquired the water right and canal which dated from the early gold mining days and by the construction of a penstock and power house put the water to use in the generation of power. A transmission line was later constructed from this plant to Modesto and Turlock and when the Sierra Company acquired the property connection was made with its transmission system. The Pacific Company is now operating the entire system of the Sierra Company under lease and the rights to be transferred to the Irrigation Districts are those of the Sierra Company as owner and of the Pacific Company, as lessee.

Between the point of diversion and the power house the two Irrigation Districts divert water for irrigation purposes and are now jointly engaged in the construction of a large storage reservoir, which when completed will flood about nine miles of the La Grange Canal. The Irrigation Districts wished to secure for irrigation purposes the use of the water now diverted by the Sierra Company and returned to the Tuolumne River below the intake of the irrigation canals.

Negotiations between the Irrigation Districts on the one hand and the Sierra Company, as owner, and the Pacific Company, as lessee of the canal and power house, on the other hand, resulted in the contract now presented for approval. This contract provides in effect that the two power companies shall transfer to the irrigation districts all of their title to the water right and power development and shall receive as compensation 10,000,000 kilowatt hours of electric energy per year for twenty-five years. Appropriate provisions have been

made covering the release of mortgages, etc., and certain limitations on the La Grange water right are specified and accepted by the Irrigation Districts. The power which the Irrigation Districts are to deliver to the Power Companies will be produced at a generating plant to be built in connection with the storage dam.

This transaction is substantially a sale of public utility property on an installment basis of payment and it is the duty of the Railroad Commission in approving it to determine that the property proposed to be sold can be dispensed with by the utility without injury to the service supplied its consumers and that proper compensation is to be received by the utility. The Irrigation Districts join in this application solely through their interest in the approval of the contract.

Past records show that the annual energy output of the La Grange Power Plant has averaged in the neighborhood of four million kilowatt hours per year, while the output of the Sierra Company's system of which it is a part, totals about 282,000,000 kilowatt hours. It is, therefore, apparent that the La Grange plant is a comparatively small unit in the system of the Sierra Company and could easily be dispensed with even though its sale did not, as in this instance, result in the addition to the Company's system of a much more important power resource.

Turning now to a consideration of the compensation to be received by the Sierra Company for the sale of its property, we find that the present worth of the future installments of power will depend upon the value placed on the power

and upon the interest rate used in calculating interest on deferred payments. Evidence before the Commission indicates that in the negotiations between themselves the Power Companies considered this energy as being worth four mills per kilowatt hour. In a recent proceeding the Commission fixed the rate for the sale of electric power by an irrigation district to a power company at 4.5 mills per kilowatt hour for a delivery of energy similar to that now under consideration, (Application 6967, San Joaquin Light and Power Corporation and Merced Irrigation District - Decision 9448, August 31, 1921). The value of the power being received by the Power Companies under this contract may reasonably be taken at from 4 to 4.5 mills per kilowatt hour and interest on the deferred payments at from 6 to 8 percent. A rate of 4 mills per kilowatt hour for power and an interest rate of 8 percent give a present value of the power covered by the contract of \$427,000.00, while a power rate of 4.5 mills per kilowatt hour and an interest rate of six percent would give a present value of \$576,000.00.

In connection with Case 909, City of Turlock vs. Yosemite Power Company, Decision 4692, Dated October 3, 1917, (Opinions and Orders of Railroad Commission, Volume 14, Page 167), the Commission found the reasonable historical cost of the power plant, canal, etc., to be \$295,000, or including transmission and telephone lines which will be partly non-operative without the power plant \$317,000. These figures which are as of June 30, 1916, represent physical property only and make no allowance for the value of the water right. In 1919 the Sierra Company sold to Waterford Irrigation District for \$170,000 the right to the use of this water for six

months of the year and in considering the total compensation received by Sierra Company for the sale of its original water right and power plant attention must be given to this sum as well as to the payment now being received for the remainder of the property. From a consideration of all of these figures it is apparent that from the viewpoint of the Sierra Company and its consumers the price received for the power plant and water right is entirely adequate.

While it is not a subject for consideration by the Commission it is of interest that by passing through their power plant the water which would otherwise be used by the Sierra Company, the Irrigation Districts can generate enough power to satisfy the requirements of this contract and that the cost of the additional generating machinery required will be less than the additional cost of the gate tower, gates, trash racks, etc., that would be required if water were to be passed through the dam to supply the existing canal and power plant. The contract therefore appears to be a favorable one from the point of view of the Irrigation Districts.

I recommend the following form of order,

ORDER

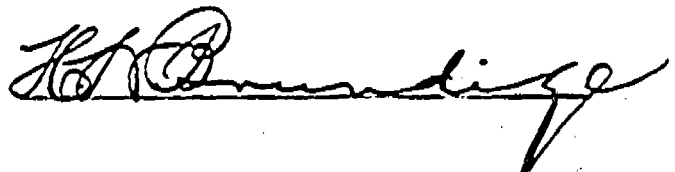
Pacific Gas and Electric Company and Sierra and San Francisco Power Company having applied to the Railroad Commission for permission to sell, and Turlock Irrigation District and Modesto Irrigation District for permission to purchase, all in accordance with the terms of a certain form of agreement filed in this proceeding and marked Exhibit "A", the water right, canal, penstock, power house, etc., known as the

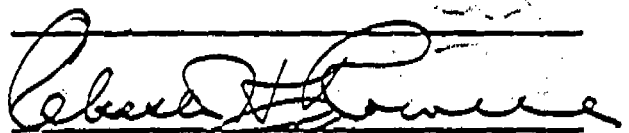
La Grange Power Plant and more particularly described in said Exhibit "A", a public hearing having been held and the Railroad Commission being of the opinion that such permission should be given,

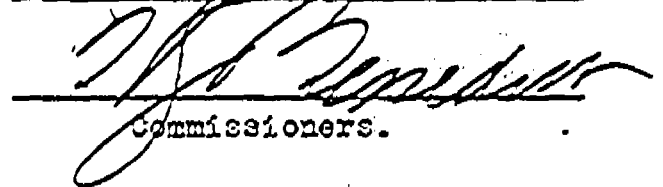
IT IS HEREBY ORDERED that Pacific Gas and Electric Company and Sierra and San Francisco Company be, and they are, hereby permitted to sell to Turlock Irrigation District and Modesto Irrigation District substantially in accordance with the terms and conditions set forth in said Exhibit "A" the property described therein and known as La Grange water right and power plant.

Approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 27th day of September, 1921.






Commissioners.