

Decision No. 27720

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SIERRA AND SAN FRANCISCO POWER COMPANY)
and)
PACIFIC GAS AND ELECTRIC COMPANY)
for an order of the Railroad Commission)
of the State of California approving an)
agreement renewing and extending the)
term of that certain Indenture of Lease)
heretofore entered into by said appli-)
cants and dated December 31, 1919.)

Application No. 19769

Wm. B. Bosley, C. P. Cutten and R. W. DuVal,
for applicants.

BY THE COMMISSION:

ORIGINAL

O P I N I O N

This is an application for an order of the Railroad Commission approving an agreement entered into by and between Sierra and San Francisco Power Company and Pacific Gas and Electric Company, on December 31, 1934, renewing and extending the term of the Indenture of Lease dated December 31, 1919, heretofore executed by said companies under authority heretofore granted by the Commission by Decision No. 7032, dated January 17, 1920, in Application No. 5146.

By Decision No. 7032 (Vol. 17, Opinions and Orders of the Railroad Commission of California, page 689) the Commission authorized applicants to execute an Indenture of Lease, dated December 31, 1919, by the terms of which Sierra and San Francisco Power Company leased its properties to Pacific Gas and Electric Company for a term of fifteen years. Under the terms of the indenture Pacific Gas and Electric Company agreed, among other things, to properly maintain and operate the properties and to pay the cost of such maintenance and operation; to pay all taxes and governmental charges; to pay

annually \$30,000.00 into a fund to amortize bond discount and expense, (this amount to be increased with the issue of additional bonds); to pay into a special depreciation fund an amount equal to two per cent of the gross revenues obtained by it from the leased properties, or such other amount as may be fixed by the Railroad Commission; to pay bond interest; and to pay as rental \$50,000.00 during the first year of the lease, \$50,000.00 during the second year, \$100,000.00 during the third year, and \$150,000.00 annually during the remaining life of the lease.

With the lease agreement terminating on December 31, 1934, applicants, subject to the approval of the Commission, on December 31, 1934, entered into an agreement to renew and extend the aforementioned lease of December 31, 1919 for a further term of ten years, or until its earlier termination by mutual agreement, on all the terms and conditions, except as regards the depreciation transactions. The new agreement, which is filed as Exhibit A with this application, reads as follows:-

" AGREEMENT EXTENDING TERM OF LEASE

IT IS MUTUALLY AGREED by and between SIERRA AND SAN FRANCISCO POWER COMPANY and PACIFIC GAS AND ELECTRIC COMPANY that, subject to the approval of the Railroad Commission of the State of California, the lease, dated December 31, 1919, which was executed by said Sierra and San Francisco Power Company, as Lessor, and Pacific Gas and Electric Company, as Lessee, pursuant to the authority granted by the Railroad Commission of the State of California by its Decision No. 7032 rendered January 17, 1920, shall be and it is hereby renewed and extended for the further term of ten (10) years from and after the date hereof, or until its earlier termination by mutual agreement, on all and singular the terms and conditions in said lease contained, modified, however, by the following provisions:

In each year of said term from and after the date hereof, the Lessee shall set aside and appropriate for the use and benefit of the Lessor a sum of money sufficient for the creation and maintenance of an adequate depreciation fund or reserve to provide for all replacements "

" necessitated by depreciation, obsolescence and inadequacy of the leased properties. Against the fund or reserve so created, the Lessee shall have the right to charge the cost of all replacements made by it during said term. Any unexpended balances of such depreciation fund or reserve may be used by the Lessee to pay for additions to or extensions and betterments of the leased property, or may be invested in good securities, or may be paid over to said Lessor at any time during said term. So much of said depreciation fund or reserve as shall be expended during said term for additions to, and extensions and betterments of, the leased properties shall be credited to the Lessor in the Capital Expenditure Account provided for in said lease. The unexpended balance of said depreciation fund or reserve remaining at the end of said term shall be paid over to said Lessor or be credited to said Lessor in said Capital Expenditure Account. The provisions contained in this paragraph shall supersede the provisions contained in said lease with respect to the creation of the Special Depreciation Fund and the General Depreciation Reserve provided for in paragraphs 23 and 24 of said lease and all provisions in said lease for the use, application, or other disposition of said Special Depreciation Fund and said General Depreciation Reserve."

Pacific Gas and Electric Company reports that it is the owner of all the issued and outstanding stock (\$20,000,000.) of Sierra and San Francisco Power Company except only nine shares which are held by the members of the latter's Board of Directors, but which are in fact held by said members of said Board of Directors in trust for the use and benefit of Pacific Gas and Electric Company. The Pacific Gas and Electric Company acquired the said stock under the authority granted by Decision No. 18567, dated June 30, 1927 (Vol. 30, Opinions and Orders of the Railroad Commission of California, page 111).

It is reported in this application that Pacific Gas and Electric Company intends ultimately to consolidate the properties of Sierra and San Francisco Power Company with its own properties, but that pending the development and consummation of plans for such consolidation the most effective and economical operation and maintenance of the properties and the conduct of the business of the Sierra and San Francisco Power Company can best be obtained by means of the

renewal and extension of the said lease, and the continued operation of said properties and business by Pacific Gas and Electric Company as lessee thereof upon the terms and conditions contained in said lease of December 31, 1919 as modified by the agreement of December 31, 1934 filed in this proceeding as "Exhibit A".

O R D E R

Sierra and San Francisco Power Company and Pacific Gas and Electric Company having asked the Commission to approve an "Agreement Extending Term of Lease" referred to in the foregoing opinion, and the Commission being of the opinion that this is not a matter in which a public hearing is necessary and that this application should be granted, as herein provided, therefore,

IT IS HEREBY ORDERED that Sierra and San Francisco Power Company and Pacific Gas and Electric Company be, and they hereby are, authorized to make and execute an agreement substantially in the same form as the "Agreement Extending Term of Lease" dated December 31, 1934 and filed in this proceeding as "Exhibit A"; provided that the authority herein granted is not interpreted as limiting the jurisdiction of the Commission in matters which may hereafter be submitted to the Commission for determination.

DATED at San Francisco, California, this 4th day of February, 1935.

Leon C. Wiley

W. J. C.

W. B. Lanning

M. J. Lanning

Frank R. Wilm

Commissioners.