

Decision No. 28292

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
MODESTO GAS COMPANY)
to distribute and transfer, in the)
course of its proceedings for winding)
up and dissolution, all of its assets)
to Pacific Gas and Electric Company,)
and of the latter to assume and agree)
to pay all of the debts and perform)
all of the existing obligations of)
said Modesto Gas Company.)

ORIGINAL

Application No. 20119

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

BY THE COMMISSION:

O P I N I O N

Modesto Gas Company and Pacific Gas and Electric Company
have applied to the Railroad Commission for an order:-

1. Granting and conferring upon Modesto Gas Company all necessary permission and authority to distribute and transfer to Pacific Gas and Electric Company, in the course of its proceedings for winding up and dissolution, all of the residue and remainder of its properties and assets of every kind remaining after the payment of all its known debts and liabilities, or the making of adequate provision for such payment.

2. Granting and conferring upon Modesto Gas Company all necessary permission and authority, upon the distribution and transfer to Pacific Gas and Electric Company of its said properties and assets, as in this application provided, to cease furnishing and supplying service as a public utility, and finding and declaring that said company is relieved of the duties and functions of a public utility corporation in the territory in which it now is or may be furnishing public utility service by means of the properties to be distributed and transferred, as aforesaid.

3. Granting and conferring upon Pacific Gas and Electric Company all necessary permission and authority to assume and agree to pay all of the debts of said Modesto Gas Company, to perform all of the latter's existing obligations, and releasing all of Pacific Gas and Electric Company's claims, demands and causes of action against said Modesto Gas Company in connection with the latter's winding up and dissolution.

4. Granting and conferring upon Pacific Gas and Electric Company all necessary permission and authority, upon acquiring the properties of Modesto Gas Company, to record on its books the cost of acquisition of said properties by charging to its fixed capital accounts the reported original cost thereof, as shown in Exhibit "D" attached to the application.

Modesto Gas Company is a public utility engaged in the business of distributing, furnishing and selling natural gas for light, heat and other purposes to its consumers in the City of Modesto and the territory immediately adjacent thereto in the County of Stanislaus. In its latest annual report to the Commission it reports its assets and liabilities, as of December 31, 1934, as follows:-

ASSETS AND OTHER DEBITS

Fixed capital in service		\$751,765.75
Current and accrued assets:		
Accounts receivable	\$46,515.79	
Interest and dividends receivable...	402.09	
Marketable securities	<u>114,047.80</u>	160,965.68
Deferred debits:		
Prepayments	\$ 127.02	
Miscellaneous	<u>1,964.81</u>	<u>2,091.83</u>
Total assets and other debits.....		<u>\$914,823.26</u>

LIABILITIES AND OTHER CREDITS

Capital stock-Common		\$100,000.00
Advances from Pacific Gas and Electric Company.....		280,580.67
Current and accrued liabilities:		
Accounts payable	\$ 661.15	
Consumers' deposits	2,666.95	
Taxes accrued	<u>12,743.32</u>	16,071.42
Consumers' advances for construction		52.20
Reserves:		
Depreciation reserve	\$233,732.87	
Casualty and insurance reserve...	12,075.04	
Miscellaneous reserve	<u>27,000.00</u>	272,807.91
Profit and loss balance		<u>245,311.06</u>
Total liabilities and other credits.....		<u>\$914,823.26</u>

Under authority granted by the Commission by Decision No. 21916, dated December 16, 1929, and Decision No. 22513, dated June 6, 1930,

Pacific Gas and Electric Company acquired all the outstanding stock of Modesto Gas Company, issuing in payment therefor \$612,800.00 par value of its own common capital stock. Since acquiring the stock Pacific Gas and Electric Company has advanced to Modesto Gas Company the sum of \$280,580.67 to enable that company to finance construction expenditures of \$120,980.67 and to call at 105, its then outstanding \$152,000. of first mortgage bonds.

The application shows that at a meeting of the Executive Committee of the Board of Directors of Pacific Gas and Electric Company held on August 6, 1935 a resolution was adopted wherein it was declared, among other things, that it was the purpose and intention of Pacific Gas and Electric Company, as the holder of all the stock of Modesto Gas Company, to bring about a dissolution of that company and to effect the acquisition of its properties by Pacific Gas and Electric Company. The resolution also authorized the officers of Pacific Gas and Electric Company, for and on behalf and in its name, to execute a proper instrument whereby Pacific Gas and Electric Company will assume and agree to pay all the debts of Modesto Gas Company and to perform all its existing obligations and to release all its claims, demands and causes of action against Modesto Gas Company. During the course of the hearing counsel for Pacific Gas and Electric Company stated that the company would assume and agree to perform all existing and contingent obligations.

The application further shows that the Board of Directors of Modesto Gas Company at a meeting held on August 12, 1935 adopted a resolution wherein it appears, among other things, that it is the purpose and intention of Modesto Gas Company to proceed immediately to wind up its affairs and to effect its voluntary dissolution and

to cease to carry on business except to such extent as may be necessary for the beneficial winding up of its affairs. To that end the company proposes to distribute and transfer to Pacific Gas and Electric Company in the course of its proceedings for winding up and dissolution, all of the residue and remainder of its properties and assets of every kind remaining after the payment of all its known debts and liabilities or the making of adequate provision for such payment.

In support of the authorization sought, applicants allege, among other things, that the transfer as herein proposed will result in a more effective conduct of business and more efficient and economical operation and maintenance of the properties and will make possible the unification and simplification of the accounting practice, the preparation and filing of rate schedules and of income and other tax returns.

Applicants in Exhibit D report that the original cost of the properties of Modesto Gas Company as of December 31, 1934, aggregated \$751,765.75, which is the amount appearing on the company's balance sheet as fixed capital in service, and that the reserve for depreciation amounted to \$233,732.87, leaving a net figure of \$518,032.88. In Exhibit E Pacific Gas and Electric Company reports the cost to it of acquiring the properties of Modesto Gas Company at \$754,983.36, which is made up of the following items:-

\$612,800. par value Pacific Gas and Electric Company common capital stock issued in exchange for 1,000 shares of the capital stock of Modesto Gas Company under authority of Railroad Commission Decisions No. 21916 and 22513.....	\$612,800.00
Cash advances from Pacific Gas and Electric Company: For construction expenditures \$120,980.67 for redemption of First Mortgage	
Bonds of Modesto Gas Company- \$152,000. face amount redeemed at 105.....	159,600.00
	280,580.67
LESS: Excess of current assets, investments, deferred charges, and operating deficit, over current liabilities and reserves.....	138,397.31
	<u>138,397.31</u>
Total cost of acquisition	<u>\$754,983.36</u>

In recording the acquisition of the properties and assets Pacific Gas and Electric Company proposes to set up in its accounts the \$751,765.75 now appearing in the fixed capital accounts of Modesto Gas Company and the \$233,732.87 now credited to its reserve for depreciation. The difference between the net figure of \$519,032.88 and the reported cost to Pacific Gas and Electric Company, which difference amounts to \$236,950.48, as of December 31, 1934, it proposes to charge to its capital surplus account.

O R D E R

Modesto Gas Company and Pacific Gas and Electric Company having made application to the Railroad Commission, as indicated in the foregoing opinion, a public hearing having been held before Examiner Fankhauser, and the Commission being of the opinion that the application should be granted subject to the provisions of this order,

IT IS HEREBY ORDERED as follows:-

1. Modesto Gas Company may, after the effective date of this order and on or before February 1, 1936, distribute and transfer to Pacific Gas and Electric Company, in the course of its proceedings for winding up and dissolution, all of the residue and remainder of its properties and assets of every kind remaining after the payment of all its known debts and liabilities, or the making of adequate provision for such payment and for the payment of its contingent liabilities.
2. Modesto Gas Company upon the distribution and transfer of its properties and assets to Pacific Gas and Electric Company, as permitted herein, may cease furnishing and supplying service as a public utility and said Modesto Gas

Company upon the distribution and transfer of said properties and assets to Pacific Gas and Electric Company is hereby relieved of the duties and functions of a public utility corporation in the territory in which it now is or may be furnishing public utility service by means of said properties and assets to be distributed and transferred.

3. Pacific Gas and Electric Company may assume and agree to pay all the debts of Modesto Gas Company and perform all of Modesto Gas Company's existing obligations and discharge and satisfy all of Modesto Gas Company's liabilities and all existing and contingent obligations, claims and causes of action against it, and release all of Pacific Gas and Electric Company's claims, demands and causes of action against Modesto Gas Company in connection with the latter's winding up and dissolution.
4. Pacific Gas and Electric Company may upon acquiring the properties and assets of Modesto Gas Company, record the cost of said properties constituting fixed capital in service and under construction by charging to its fixed capital accounts the \$751,765.75 appearing in the fixed capital accounts of Modesto Gas Company as of December 31, 1934, and credit to the depreciation reserve \$233,732.87 plus or minus the actual net additions and betterments from January 1, 1935 to the date of acquisition, provided that the Commission reserves the right to inquire into said charges to said fixed capital accounts and into the credits to the said depreciation reserve and to require said Pacific Gas and Electric Company to make such adjustments in said charges to said fixed capital accounts and to the credits to said depreciation reserve as may

appear reasonable and proper.

5. The authority herein granted is subject to the condition that the consideration paid by Pacific Gas and Electric Company for the properties and assets of Modesto Gas Company and the amount which said Pacific Gas and Electric Company is herein authorized to charge to its fixed capital accounts shall not be construed as a determination of the value of said properties and assets for the purpose of fixing rates or any purpose other than the transfer herein authorized.
6. Within sixty (60) days after the acquisition of the properties herein authorized to be transferred, Pacific Gas and Electric Company shall file with the Commission a copy of each book entry recording the acquisition of said properties and the distribution of fixed capital in service to primary fixed capital accounts, as provided in Account 398, Cost of plant and equipment purchased, and a copy of the deed or other instrument of conveyance under which it acquires and holds title to said properties and assets.
7. The authority herein granted will become effective twenty(20) days after the date hereof, and when Pacific Gas and Electric Company has filed with the Commission a copy of the contract under which Pacific Gas and Electric Company agrees to pay and discharge all of the debts and liabilities of Modesto Gas Company and will assume all of said Modesto Gas Company's obligations of every kind and character whether they arise out of contract or tort or exist under or by force of any law or statute or any municipal or county ordinance or by virtue

of the grant and acceptance of any franchise.

DATED at San Francisco, California, this 21st day of October,
1935.

Leon C. Davidson

M. B. Quinn
W. H. Mearns

Commissioners.