

Decision No. 2861A

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
THE SOUTHERN SIERRAS POWER COMPANY,
THE NEVADA-CALIFORNIA POWER COMPANY,
and THE NEVADA-CALIFORNIA ELECTRIC
CORPORATION for an order authorizing
the first two mentioned petitioners
to assign, grant and transfer to the
last named petitioner all of their
lines, plants, systems, properties,
franchises, assets and rights.

ORIGINAL

Application No. 20349

Henry W. Coil, and Albert G. Cage, for applicants.
Elmer W. Heald and Harry W. Horton, for Imperial
County.
Lester S. Ready, for Imperial Irrigation District.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked to enter its order authorizing The Southern Sierras Power Company to grant, assign and transfer all of its properties and rights to The Nevada-California Electric Corporation, in consideration of the surrender for the retirement and cancellation of all of the outstanding capital stock and bonds of said The Southern Sierras Power Company and the release and discharge of the mortgage and deed of trust given to secure the bonds of said The Southern Sierras Power Company and the assumption of all contracts and other obligations and liabilities of said The Southern Sierras Power Company by said The Nevada-California Electric Corporation; and further authorizing the subjection of said properties and rights of said The Southern Sierras Power Company to the first lien indenture of said The Nevada-California Electric Corporation dated January 1, 1916 and its sup-

plemental indenture dated April 1, 1926 and the bonds outstanding thereunder, such transaction to be recorded in the books of account as of 12:01 A.M. January 1, 1936; and further authorizing said The Southern Sierras Power Company thereupon to discontinue its public utility business in California.

The Commission is also asked to enter its order authorizing The Nevada-California Power Company to grant, assign and transfer all of its properties and rights situate in California to The Nevada-California Electric Corporation in consideration of the surrender for retirement and cancellation of all of the outstanding capital stock and bonds of said The Nevada-California Power Company and the release and discharge of the mortgage and deed of trust given to secure the bonds of said The Nevada-California Power Company and the assumption of all contracts and other obligations and liabilities of said The Nevada-California Electric Corporation; and further authorizing the subjection of said properties and rights situate in California to the lien of the first lien indenture by said The Nevada-California Electric Corporation dated January 1, 1916 and a supplemental indenture dated April 1, 1926 and the bonds outstanding thereunder, such transaction to be recorded in the books of account as of 12:01 A.M., January 1, 1936.

The Southern Sierras Power Company is a corporation organized June 15, 1911, and ever since existing under and by virtue of the laws of the State of Wyoming. It is engaged in the public utility business in the State of California. It owns, leases, maintains and operates various hydro, steam and oil electric generating plants, dams, reservoirs, water rights, pipe lines, transmission and distribution lines and other electrical facilities and appurtenances in the Counties of Mono, Inyo, Kern, San Bernardino, Riverside and Imperial Counties in the State of California.

The Southern Sierras Power Company has outstanding \$5,000,000. of common stock, \$2,000,000. of 7% preferred stock and \$16,814,000. of 6% bonds. All of the bonds and all of the stocks, except shares necessary to qualify directors, are owned by The Nevada-California Electric Corporation which has an option on the director's shares. These stocks and bonds will be cancelled upon the transfer of the properties.

Applicant, The Nevada-California Power Company, is a corporation organized on January 5, 1907, and ever since existing under and by virtue of the laws of the State of Wyoming. It is legally and duly authorized to do and doing business, but not as a public utility, in the State of California. The company owns various hydro-electric plants, dams, reservoirs, water rights, pipe lines, transmission lines and other electrical facilities and appurtenances in the Counties of Mono and Inyo in the State of California, all of which are leased for a long term of years to applicant, The Southern Sierras Power Company, and which are used in the public service. Applicant, The Nevada-California Power Company, is, and at all times has been, doing business as a public utility in the State of Nevada and now purchases electric energy for such purposes from applicant, The Southern Sierras Power Company. The Nevada-California Power Company reports \$6,500,000. of common stock and \$7,102,000. of bonds outstanding. All of the bonds and all of the stock except shares necessary to qualify directors, are owned by The Nevada-California Electric Corporation which has an option on the director's shares. The stock and bonds will likewise be cancelled upon the transfer of the properties.

Applicant, The Nevada-California Electric Corporation, is a corporation organized on December 12, 1914, and ever since existing under and by virtue of the laws of the State of Delaware. It is a holding company and through stock ownership controls the following

corporations:-

The Nevada-California Power Company
 The Southern Sierras Power Company
 Interstate Telegraph Company
 Hillside Water Company
 Cain Irrigation Company
 The Imperial Ice and Development Company
 The Yuma Utilities Company
 Nev-Cal Electric Securities Company
 Imperial Cold Storage Company

It appears that it owns all of the bonds issued by its several subsidiaries and all of the stocks issued by such subsidiaries except shares that may be held by directors of such subsidiaries.

Exhibit three filed in this proceeding shows that after eliminating inter company transactions, the gross operating earnings of The Nevada-California Electric Corporation in 1934 amounted to \$5,209,151.07. The per cent. of gross earnings by companies and by activities are for 1934 reported as follows:-

	<u>Per cent.</u>
Electrical: The Southern Sierras Power Company	67.36
The Nevada-California Power Company	16.02
Yuma Utilities Company	2.71
Total electrical	<u>86.09</u>
Ice: The Imperial Ice and Development Company	11.80
Telephone: Interstate Telegraph Company	1.93
Cold Storage: Imperial Cold Storage Company	.18
Grand total.....	<u>100.00</u>

Applicants further report in said exhibit three the per cent. of gross earnings, electrical earnings and investments in permanent property by states as follows:-

State	Per cent. gross	Per cent. Electrical	Permanent Property	
			Per cent.	Amount
California	81.26	78.24	93.82	\$41,690,065.47
Nevada	16.03	18.61	5.20	2,311,188.96
Arizona	2.71	3.15	.98	435,466.15
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>\$44,436,720.58</u>

It is now proposed to establish The Nevada-California Electric Corporation as an operating utility. This is to be accomplished by

transferring to The Nevada-California Electric Corporation all of the assets and properties of The Nevada-California Power Company, all of the assets and properties of The Southern Sierras Power Company and all of the assets and properties of the Yuma Utilities Company. As soon as the merger of the three companies is completed, it is planned to transfer to The Nevada-California Electric Corporation the assets and properties of the Hillside Water Company and the Cain Irrigation Company. These two companies own properties used by The Southern Sierras Power Company in producing electric energy. They are not engaged in the public utility business. Through the transfer of the said properties The Nevada-California Electric Corporation will become the owner of the properties used by its various subsidiaries in the generation, transmission and distribution of electric energy. It is of record that the properties have been conducted under a common management and in essence as one property. No change in the management of the properties nor any change in rates will be occasioned by the merger of the properties. Mr. A. B. West, president of The Nevada-California Electric Corporation, testified that it was his belief that if the corporation takes over the operation of the Electric properties that the operations can be conducted more economically and can be financed at a cheaper cost of money, all of which would rebound to the benefit of every one concerned, including the rate payer.

The Nevada-California Electric Corporation will assume all the liabilities of the companies whose properties it will acquire. Had the merger of the properties of The Southern Sierras Power Company, The Nevada-California Electric Company and Yuma Utilities Company been in effect as of October 31, 1935 the balance sheet of The Nevada-California Electric Corporation would have been as follows:-(Exhibit 5)

A S S E T S

Electric properties	\$33,632,111.99
California electric dept.	\$30,532,560.44
Nevada electric dept.	2,662,146.42
Arizona electric dept.	<u>437,405.13</u>
Stocks of affiliated companies	4,944,588.04
Bonds of affiliated companies	2,535,177.33
Investments-Miscellaneous	716.00
Reserve for losses on advances to controlled companies	(100,000.00)
Investment advances to controlled companies	660,000.00
Bond redemption fund	1,683.04
Special deposit for construction purposes	1,887,018.77
Current assets-excluding inter-company accounts	3,084,045.32
Current assets-company accounts	6,445,325.56
Prepaid insurance	17,790.28
Miscellaneous deferred debits	37,068.89
Deferred debits in re cash paid into pension fund....	385,228.09
Deferred debits representing expenditures on abandoned uncompleted projects.....	134,971.34
Unamortized discount on bonds and debentures.....	1,615,499.65
Premium on bonds redeemed	442,773.00
Stock discount-preferred	629,500.00
Stock discount-common	565,028.61
Premium paid and discounts obtained in acquiring stocks of subsidiaries in excess of discount recorded on books of issuing companies	(1,984,771.23)
Premiums paid by N.-C.E.Corp'n in acquiring stocks of subsidiaries where properties are afterwards acquired by N.-C.E.Corp'n in liquidation of those subsidiaries and recorded on books of N.-C.E.Corp'n at same ledger value shown on books of subsidiary companies.....	5,356,452.88
Total.....	<u>\$60,290,207.56</u>

L I A B I L I T I E S

Capital stock-Common	\$ 8,588,300.00
" " Preferred	11,461,200.00
Bonds-first trust mortgage 5's, due 4-1-1956.....	25,557,500.00
Debentures- 15-yr 6's, due 7-1-1941	3,000,000.00
Debentures- 5-yr. 7's, due 1-1-1938	393,000.00
Current liabilities, excluding inter-company accounts	726,168.80
Current liabilities, inter-company accounts	845,929.70
Deferred credits	129,586.29
Suspended credits to property	270,756.03
Depreciation reserve	4,450,802.44
Surplus reserves	224,658.00
Premiums received by N.-C.E.Corp'n on its preferred stock	17,374.00
Surplus of N.-C.E.Corp'n before merging	758,426.20
Surplus arising from acquisition of assets of subsidiaries	3,866,506.10
Total.....	<u>\$60,290,207.56</u>

Information at hand leads us to believe that the cost of the electric properties as reported above, is in excess of the money expended in acquiring and constructing such properties.

In acquiring the stocks of subsidiary companies, The Nevada-California Electric Corporation in some instances shows the ledger cost of such stocks on its books at an amount in excess of the par value of the stock acquired and in other instances at less than the par value of the stock acquired. The credit item of \$1,984,771.23 and the debit item of \$5,356,452.88 appearing under the assets in the balance sheet on a preceding page, arise from the fact that the ledger cost of the stocks acquired is more or less than their par value.

The outstanding stocks and bonds as shown in the balance sheet include the following securities owned by Nev-Cal Electric Securities Company, a wholly owned subsidiary of The Nevada-California Electric Corporation:-

I t e m	: Outstanding : as per : balance : sheet	: Owned by : Nev-Cal : Electric : Securities : Company	: Outstanding : in hands : of : public
Common stock	:\$ 8,589,300.:	\$ 120,000.:	:\$ 8,468,300.
Preferred stock	: 11,461,200.:	980,600.:	: 10,480,600.
First trust mortgage bonds	: 25,557,500.:	979,700.:	: 24,577,800.
Six per cent debentures...	: 3,000,000.:	937,000.:	: 2,063,000.
Seven percent debentures	: 393,000.:	11,800.:	: 381,200.
Total.....	:\$49,000,000.:	\$3,029,100.:	:\$ 45,970,900.

Had the properties been consolidated during 1935 the operating revenues and expenses are in Exhibit six(6) reported for the eleven (11) months ending November 30, 1935 as follows:-

	: Nevada	: California	: Arizona	: Total
OPERATING EARNINGS:				
Light	:\$ 44,960.	:\$ 844,242.	:\$ 30,435.	:\$ 919,637.
Heat.....	: 11,426.	: 639,320.	: 27,203.	: 677,949.
Power	: 639,514.	: 1,940,637.	: 84,379.	: 2,664,530.
Power sales to NCPCo	: -	: 403,046.	: -	: 403,046.
" " " Y.U.Co:	: -	: 94,970.	: -	: 94,970.
Miscellaneous	: 173.	: 22,664.	: 245.	: 23,082.
Total operating earnings	:\$696,073.	:\$3,944,879.	:\$ 142,262.	:\$4,783,214.
OPERATING EXPENSES:				
Production	:\$403,046.	:\$ 704,038.	:\$ 98,132.	:\$1,205,216.
Transmission	: 16,685.	: 68,191.	: -	: 84,876.
Distribution	: 23,024.	: 182,335.	: 10,821.	: 216,180.
Utilization	: 475.	: 19,102.	: 532.	: 20,109.
Commercial	: 7,247.	: 137,168.	: 5,986.	: 150,401.

	:Nevada	:California	:Arizona	: Total
<u>OPER. EXPENSES-CONTD</u>	:	:	:	:
New business.....	:\$ 4,749.	:\$ 110,226.	:\$ 2,004.	:\$ 116,979.
General and Miscell.:	48,972.	294,416.	15,269.	358,657.
Depreciation	18,539.	382,074.	13,311.	413,924.
Total operating and general expenses...	522,737.	1,897,550.	146,055.	2,566,342.
Uncollectible bills :	1,100.	33,752.	2,750.	37,602.
Federal income taxes :	9,224.	32,386.	-	41,610.
" tax on leased lines, etc. :	3,600.	53,377.	1,722.	58,699.
Other taxes assignable to operations	57,543.	260,622.	5,525.	323,690.
Net operating income :	\$101,869.	\$1,667,192.	\$(13,790).	\$1,755,271.
Rent for lease of oper- ating property(Dr.) :	8,175.	13,393.	-	21,568.
Other nonoperating in- come-Net	401.	65,091.	2,359.	67,851.
Gross income	:\$ 94,095.	:\$1,718,890.	:\$ (11,431.)	:\$1,801,554.

It is of record that The Nevada-California Electric Corporation will keep its books of accounts and operating records at Riverside, California. The electric properties in California will become the California electrical unit or division of The Nevada-California Electric Corporation, the electric properties in Nevada the Nevada electrical unit or division and the electric properties in Arizona the Arizona electrical unit or division of the corporation. A separate set of subsidiary records will be kept for each unit or division along the same general plan that a separate set of books is now kept for each of the respective companies. The properties and operations of each unit or division will be kept separate from the properties and operations of the other units or divisions.

We believe that The Nevada-California Electric Corporation should show on its books the original cost of its California electric properties used in the generation, transmission and distribution of electric energy. It is obvious to us that the books of the corporations now owning such properties, except the books of The Southern Sierras Power Company, do not reflect such cost. If the original cost figures of some of the properties are not available they can be estimated. We of course have no objection to the books being adjusted so as to also show the original cost of the electric proper-

ties in other states. The difference between the cost of the properties on the books of the vendor companies and the original cost of such properties may be charged to a new account, No. 102 $\frac{1}{2}$, entitled "Difference between original cost of properties and the amount at which they were carried on books of vendor companies."

The Nevada-California Electric Corporation should credit monthly its depreciation reserve with an amount that reasonably represents the accruing depreciation on its electric properties. Each month a sum in cash equal to the accruing depreciation on electric properties situate in California should be placed in a depreciation fund. The monies in the depreciation fund, unless otherwise authorized by the Railroad Commission, should be used only to replace electric properties in California and/or to acquire new electric properties situate in California and/or pay the cost of additions and betterments to electric properties situate in California.

The statement on a preceding page shows that the properties situate in Nevada, California and Arizona do not earn the same rate of return. This Commission of course has no authority over rates in Nevada or Arizona. It has authority over the rates and service rendered by applicants in California. The consumers in California should not be called upon to contribute to the net operating revenue of The Nevada-California Electric Corporation more than a reasonable return. In determining what might be a reasonable return, the electric properties in California should be regarded as an entity and not part of a corporate organization which owns and operates electric properties in other states and which controls other than electric properties. The fact that it may not be earning enough to pay interest on its bonds, dividends on its preferred stock, and dividends on its common stock should not be made the basis for an increase in rates. We have not approved the capital set up of The Nevada-California Electric Corporation and are not approving the same by authorizing the

transfer of the properties herein mentioned.

The authority herein granted to transfer properties should not be construed as conferring upon applicants any right for special severance damages in the event some public body seeks to condemn part or all of the electric properties situate in California. The fact that we by this order permit the properties in California to become the properties of a corporation which will own properties in other states should not be urged as increasing the value of said properties. By this we do not mean to foreclose applicants from claiming severance damage, but such severance damage should not be increased because of the authority herein granted.

Imperial County, through its District Attorney, Elmer W. Heald, asks that this application be denied so far as the transfer of any franchises within the County of Imperial is concerned, and that no transfer of franchises within the County of Imperial be allowed. The county in its petition says-

"The Southern Sierras Power Company has failed, neglected and refused to comply with the provisions of the laws of the State of California relating to the obtaining of franchises and permits to place and maintain pole lines, power lines and appurtenant structures in, along, over, upon and across the public highways of the said County of Imperial.

The Southern Sierras Power Company has not complied with the terms and provisions of the Broughton Act of the State of California and has not legally and lawfully obtained a franchise or permit to maintain its pole lines, power lines and appurtenant structures in, along, over or upon the public highways of the County of Imperial.

That the said The Southern Sierras Power Company has failed, neglected and refused to procure from the Board of Supervisors of the County of Imperial permits as required by the ordinance of the County of Imperial and by the state law of the State of California to stretch its wires across and above the public highways of the County of Imperial."

A. B. West testified that it would be the company's intention to obtain all franchises that are necessary.

The order herein does not create or establish any franchise rights. It only authorizes the transfer of such franchise rights as The Southern Sierras Power Company may have. If it does not own or possess any such rights it cannot transfer any. Moreover, the order herein does not operate as an abatement of any claims that Imperial county or any one else may have against The Southern Sierras Power Company.

O R D E R

The Commission having been asked to enter its order, as indicated in the foregoing opinion, a public hearing having been held before Examiner Fankhauser and the Commission having considered the testimony submitted in this proceeding and being of the opinion that this application should be granted subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:-

1. The Southern Sierras Power Company may, after the effective date hereof and prior to June 30, 1936 grant, assign and transfer all of its properties and rights in complete liquidation to The Nevada-California Electric Corporation in consideration of the surrender for retirement and cancellation of all of the outstanding stock and bonds of said The Southern Sierras Power Company and release and discharge of the mortgage and deed of trust given to secure the bonds of said The Southern Sierras Power Company and the assumption of all contracts and any and all other obligations and liabilities of said The Southern Sierras Power Company by said The Nevada-California Electric Corporation, said transfer of properties to be made in accordance with the terms and provisions of the grant deed and assignment filed in this proceeding as amended Exhibit "F" and of this order.

2. The properties herein authorized to be transferred to The Nevada-California Electric Corporation may be subjected to the lien of the first lien indenture of The Nevada-California Electric Corporation dated January 1, 1916 and its supplemental indenture dated April 1, 1926 and the bonds outstanding thereunder.

3. Concurrently with the transfer of the properties of The Southern Sierras Power Company to The Nevada-California Electric Corporation, and the assumption by the latter of all the obligations and liabilities of the former, the said The Southern Sierras Power Company may discontinue its public utility business.

4. The Nevada-California Power Company may after the effective date hereof and prior to June 30, 1936, grant, assign and transfer all of its properties and rights situate in the State of California and in complete liquidation of said The Nevada-California Power Company to The Nevada-California Electric Corporation in consideration of the surrender for retirement and cancellation of all the outstanding stock and bonds of said The Nevada-California Power Company, and the release and discharge of the mortgage and deed of trust given to secure the bonds of said The Nevada-California Power Company and the assumption of all contracts and other obligations and liabilities of said The Nevada-California Electric Corporation, said transfer of properties to be made in accordance with the grant deed and assignment filed in this proceeding as amended Exhibit "G" and of this order.

5. The properties which The Nevada-California Power Company is herein authorized to transfer to The Nevada-California Electric Corporation may be subjected to the lien of the first lien indenture of The Nevada-California Electric Corporation dated January 1, 1916 and its supplemental indenture dated April 1, 1926 and the bonds outstanding thereunder.

6. The transactions herein authorized may be recorded upon the books of account of The Southern Sierras Power Company and The Nevada-California Power Company and The Nevada-California Electric Corporation as of 12:01 A.M. January 1, 1936.

7. The authority herein granted is subject to the condition that the consideration paid by The Nevada California Electric Corporation for the properties and rights of The Southern Sierras Power Company and The Nevada-California Power Company shall not be construed as a determination of the value of said properties and rights for the purpose of fixing rates or for any purpose other than the transfer herein authorized.

8. The authority herein granted will become effective twenty (20) days after the date hereof and when The Nevada-California Electric Corporation has filed with the Commission a statement duly authorized by its board of directors in which it agrees to comply with the following conditions:-

- a. That within one(1) year after it acquires the aforesaid properties it will adjust its charges to its electric fixed capital accounts so that such accounts will show the original cost, estimated if not known, of its electric properties segregated among the several states in which said properties are situate, and show the difference between said original cost and the ledger cost of said properties under Account 102½ entitled "Difference between original cost of properties and the amount at which they were carried on the books of vendor companies"; which account 102½ said The Nevada-California Electric Corporation is hereby authorized to record on its books, and
- b. That The Nevada-California Electric Corporation will credit monthly its depreciation reserve with an amount that reasonably represents the accruing depreciation on its

electric properties, and will each month transfer to Account No. 122, "Depreciation fund" a sum of cash equal to the accruing depreciation on its electric properties situate in California, and use the monies in said depreciation fund, unless otherwise authorized by the Commission, only to replace electric properties situate in California, and/or to acquire new properties situate in California and/or to pay the cost of additions and betterments to electric properties situate in California, and

- c. That The Nevada-California Electric Corporation will keep a separate set of subsidiary records for each unit or division of its electric properties, such subsidiary records, among other things, to show the original cost of the electric properties situate in California and the operating revenues and operating expenses applicable to said electric properties situate in California, and
- d. That The Nevada-California Electric Corporation, its successor or assigns, without prejudice to its rights under the constitution and laws of this state and of the United States to just compensation will, in the event of any condemnation proceeding, not claim any special severance damages because of the fact that the Commission in this proceeding has authorized the transfer of the aforesaid properties.

9. Within thirty(30) days after the acquisition of the aforesaid properties by The Nevada-California Electric Corporation, said The Nevada-California Electric Corporation shall file with the

Commission a certified copy of the deed or other instrument under which it acquired and holds title to the properties herein authorized to be transferred and a copy of each and every journal entry whereby it records the acquisition of the aforesaid properties.

DATED at San Francisco, California, this 9th day of March, 1936.

M. Blavis
Leon White
M. J. Cunn
Walter H. ...
Frank ...

Commissioners.