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Decision No. \_\_\_\_\_

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
SAN JOAQUIN LIGHT AND POWER CORPORA-  
TION and PACIFIC GAS AND ELECTRIC  
COMPANY for an order authorizing  
Pacific Company to assume the debts,  
liabilities, and obligations of San  
Joaquin Corporation to distribute  
and transfer to Pacific Company its  
plants, properties and other assets,  
all in conformity with the provisions  
of the agreement herein mentioned.

Application No. 22157

ORIGINAL

Wm. B. Bosley and R. W. DuVal, for applicants.

WHITSELL, COMMISSIONER:

O P I N I O N

In this proceeding Pacific Gas and Electric Company, hereinafter sometimes referred to as "Pacific", and San Joaquin Light and Power Corporation, hereinafter referred to as "San Joaquin", ask the Commission to make its orders as follows;

1. Authorizing Pacific to assume the debts, liabilities and obligations of San Joaquin to persons other than Pacific and authorizing San Joaquin to distribute and transfer to Pacific its plants, properties and other assets in conformity with the provisions of the agreement between said applicants, dated August 11, 1938 filed as Exhibit "D" with the petition herein;
2. Granting and conferring upon San Joaquin all necessary permission and authority, upon the distribution and transfer to Pacific of its said plants, properties, and assets as in this petition provided, to cease furnishing and supplying service as a public utility and finding and declaring that San Joaquin 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; and
3. Granting and conferring upon Pacific all necessary permission and authority, upon acquiring the said properties of San Joaquin, to record the cost of acquisition thereof upon its books either in accordance with proposal A or Proposal B set forth in Paragraph VIII of the amended petition filed in this proceeding, as the Commission may determine, but without prejudice to the right of Pacific to prove actual historical cost of said properties in the process of reclassifying its accounts.

An initial hearing was held in this matter at Fresno on September 20, 1938. Thereafter on September 23, 1938 applicants filed their amendment to the application revising the figures at which Pacific proposes to record on its books the properties to be acquired from San Joaquin. On September 26, 1938 a further hearing was held, at which time the matter was taken under submission.

San Joaquin does a general power business throughout the territory

in which it operates, in which the following are the principal cities and towns; namely-Fresno, Bakersfield, Merced, Madera, Selma, Los Banos, Taft, Corcoran, Sanger, Reedley and Dinuba. In addition it distributes gas in the cities of Fresno, Bakersfield, Selma, Fowler, Sanger, Easton, Madera, Chowchilla, Merced, Atwater and Livingston and contiguous suburbs, and furnishes domestic water service in Selma. As of December 31, 1937 it had 107,229 electric customers, 41,507 gas customers and 1,144 water customers.

In addition San Joaquin owns about 95% of the outstanding stock of Valley Electrical Supply Company, a corporation engaged in the electrical merchandise business. It also owns street cars and buses leased to Bakersfield and Kern Electric Railway Company.

It appears that since June 12, 1930 San Joaquin has been controlled through stock ownership by Pacific.<sup>(1)</sup> The following table shows the amounts of San Joaquin's outstanding stock and the amounts owned by Pacific and by the public:

<u>Class of Stock</u>	<u>Total Outstanding</u>	<u>Owned by</u>	
		<u>Pacific</u>	<u>Public</u>
<u>Preferred:</u>			
7% prior preferred	\$11,693,200.	\$ 9,186,200.	\$2,507,000.
6% prior preferred-Ser.A	2,553,600.	1,966,800.	586,800.
7% preferred-Series A	6,393,400.	6,030,900.	362,500.
6% preferred-Series B	31,600.	3,000.	28,600.
Sub-total	\$20,671,800.	\$17,186,900.	\$3,484,900.
<u>Common:</u>	12,956,900.	12,886,700.	70,200.
Total	<u>\$33,628,700.</u>	<u>\$30,073,600.</u>	<u>\$3,555,100.</u>

On August 15, 1938 Pacific offered to exchange its preferred stock for the \$3,484,900. of preferred stocks of San Joaquin held by the public. The matter of such exchange is the subject of Application No. 22155 and is considered in the decision in that proceeding.

It is of record in this proceeding that the Board of Directors of Pacific at a meeting held on August 10, 1938 adopted a resolution (Exhibit B) wherein it appears, among other things, that Pacific, as the owner of more than 89% of all the issued shares of stock of San Joaquin, has elected to cause that corporation to wind up its affairs and effect dissolution, and has authorized and directed its officers to execute and file with San Joaquin

(1) Pacific acquired stock of San Joaquin pursuant to authority granted by Decision No. 22432, dated May 14, 1930, (34 CRC 661), and Decision No. 24993, dated July 15, 1932. (37 CRC 717).

its written consent to the winding up of San Joaquin's affairs and its voluntary dissolution and to do all things necessary or proper for completing such winding up and dissolution. Thereafter the Board of Directors of San Joaquin at a meeting held on August 11, 1938 adopted a resolution stating, among other things, its purpose and intention to wind up its affairs, to effect its voluntary dissolution and to forthwith cease to carry on business.

To accomplish the end set forth in the resolutions the officers of applicants entered into and executed a written contract, dated August 11, 1938. In said contract Pacific agreed, among other things, to submit to the minority holders of San Joaquin's outstanding preferred stock a fair offer to issue shares of its own preferred stock in exchange for their shares of preferred stock of San Joaquin and, from time to time, to advance to San Joaquin all sums of money which may be required to enable the latter to comply with the provisions of said agreement. San Joaquin agreed, among other things, that after the expiration of the period of time allowed for the acceptance of the offer of exchange submitted by Pacific, to distribute and pay to all of the remaining minority preferred stockholders the full amount of money to which they shall then be entitled, viz., the par value of their shares and accrued dividends; to declare and pay as cash dividends the undistributed balance of its surplus profits and earnings accumulated since June 12, 1930; to purchase at the fair value and retire all shares of its common stock now held by its minority common stockholders or to cause the fair value of such stockholders proportional share of its net distributable assets to be ascertained and to pay such amount to the minority common stockholders; to pay and discharge all of its known current debts, liabilities and taxes; to pay to Pacific all moneys remaining in its treasury and in banks; and to distribute to Pacific as its sole remaining stockholder, after payment of all amounts payable to its minority stockholders, all of its plants, properties and other assets.

The agreement reads in part as follows:

"Pacific Company will assume and agree to pay the entire funded debt of San Joaquin Corporation, and all other debts and liabilities of the latter remaining unpaid after the performance of the foregoing provisions of the agreement, and will assume, perform and discharge all other obligations of San Joaquin Corporation, whether such obligations arise out of contract, tort or judgment, 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 or Federal Power Commission license."

By decision No. 31328, dated October 3, 1938, we authorized Pacific Gas and Electric Company to issue its preferred stocks in exchange for preferred stocks of San Joaquin Light and Power Corporation.

At the hearing had on September 20th, Wm. B. Bosley, counsel for applicants stated that San Joaquin will by the process of negotiation, if practicable, acquire the 702 shares of its common stock held by others than Pacific. If it can not reach an agreement with the holders of the stock as to its fair value, he indicated that a proceeding would be instituted in conformity with the general corporation law of this State to determine the rights of all parties in interest. The matter of determining the value of the 702 shares of common stock of San Joaquin is not an issue in this proceeding.

In support of the authorizations sought, applicants allege that the consolidation of the properties is in conformity with its long established policy of simplifying its corporate structure by the elimination of its subsidiary public utility corporations and that the plan is in the public interest in that it will result in a more effective conduct of its business through the unification of its accounting and preparation and filing of reports. It is estimated that annual savings, approximating \$150,000.00 should be realized, chiefly in the items of federal taxes and preferred dividends, as a result of the consolidation of the properties and operations. On this point, however, the testimony shows that the existing personnel will be continued.

In taking over the properties the request is made by Pacific for permission to charge to plant and fixed capital accounts the cost to it of acquisition of San Joaquin fixed capital in service and under construction. In Exhibit F the cost of acquisition to Pacific, as of December 31, 1937, is reported at \$67,350,759.66, which is made up of the following:-

Advances since June 12, 1930-		
For redemption of San Joaquin bonds	\$24,797,662.50	
For additions and betterments	<u>7,209,930.26</u>	\$32,007,592.76
Funded debt to be assumed-		
Non-callable uni. & ref. 6s, due 1952		9,199,500.00
Par value of stock issued		29,188,551.73
San Joaquin preferred stock still held by public		<u>3,484,900.00</u>
Sub-total		\$73,880,544.49
Less: Excess of other assets and debits over current liabilities, reserves (except for depreciation) and surplus since June 12, 1930		<u>6,529,784.83</u>
Balance		<u>\$67,350,759.66</u>

In Exhibit "E" attached to the amendment to the application, applicants report the historical cost of San Joaquin's fixed capital in service and under construction and the reserve for depreciation as of December 31, 1937, as shown by San Joaquin's books. From this exhibit the following figures are obtained:-

Electric department:		
Intangible capital:		
Organization	\$294,902.02	
Franchises	5,871.33	
Miscellaneous	<u>15,103,183.00</u>	\$15,403,956.35
Tangible capital		<u>74,661,220.95</u>
Total-electric department		\$90,065,177.30
Gas department		2,864,283.42
Water department		143,021.98
Nonoperative properties		33,064.16
Construction work in progress		<u>680,525.27</u>
Total		\$93,786,072.13
Less: Reserve for depreciation		<u>19,142,339.61</u>
Balance		<u>\$74,643,732.52</u>

The \$74,643,732.52 is \$7,292,972.86 in excess of the reported cost to Pacific. It is proposed to adjust this difference against the miscellaneous intangible capital balance, thereby reducing the balance in that account from \$15,103,183.00 to \$7,810,210.14 and the total fixed

capital from \$93,786,072.13 to \$86,493,099.27.

As stated, Pacific proposes to record the fixed capital to be acquired from San Joaquin at \$67,350,759.66 as of December 31, 1937. (2) To accomplish this it submits in the amendment to the application, two alternative proposals, either of which will be followed as the Commission may determine.

In "Proposal A" it suggests the charge to "Purchase Account-San Joaquin Light and Power Corporation" of the sum of \$86,493,099.27 (being the book figures of San Joaquin as of December 31, 1937 less the write-down in the miscellaneous intangible capital account) and the credit to depreciation reserve account of the sum of \$19,142,339.61, the difference between the two figures being the reported cost to it of \$67,350,759.66. Thereafter it proposes to distribute the \$86,493,099.27 to the appropriate fixed capital accounts.

In "Proposal B" it suggests the charge to fixed capital accounts and the credit to depreciation reserve account of the following amounts:-

To tangible fixed capital in service and under construction		\$78,382,115.78
To intangible plant:		
Organization	\$294,902.02	
Franchises	5,871.33	
Miscellaneous	<u>7,810,210.14</u>	<u>8,110,983.49</u>
	Total	<u>\$86,493,099.27</u>
To depreciation reserve account		<u>19,142,339.61</u>
	Net cost of properties acquired	<u>\$67,350,759.66</u>

By Decision No. 30269, dated October 25, 1937, as amended by Decision No. 30339, dated November 15, 1937, in Case No. 4230, the Commission adopted and prescribed, effective January 1, 1938, a uniform system of accounts for electrical corporations.

By this decision the Commission has directed electrical corporations to reclassify on or before December 31, 1938, their invest-

(2) The amount will be subject to adjustment for transactions since December 31, 1937.

ment in electric plant and show the original cost thereof. The system of accounts prescribed by said decision contains instructions covering that subject. It also contains accounting instructions covering the subject of "electric plant purchased".

Account 391 reads-

"A. This account shall include the cost of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, pending the distribution thereof to the appropriate accounts in accordance with electric plant instruction 4.

B. Within six(6) months from the date of acquisition of property recorded herein, there shall be filed with the Commission the proposed journal entries to clear from this account the cost to the utility of the property acquired"

The systems of accounts prescribed by the Commission for gas corporations and for water corporations also contain instructions on the same subject.

We expect Pacific if it acquires the properties of San Joaquin to record the properties on its books in the manner required by the systems of accounts prescribed by the Commission. There is therefore no need to pass expressly on Proposal A or Proposal B.

If Pacific acquires the properties of San Joaquin it will be required to file with the Commission monthly reports showing by accounts its electric, gas and water operating revenues and operating expenses applicable to the area now served by San Joaquin, and the gross and net cost of additions and betterments to its properties in said area.

The distribution and transfer of the assets of San Joaquin should result in a reduction of expenses and be of benefit to the public. I therefore recommend the following form of order:-

#### O R D E R

Application having been made to the Railroad Commission for an order, as indicated in the foregoing opinion, public hearings having been held and the Commission having considered the evidence

submitted and being of the opinion that the application should be granted, subject to the provisions of this order,

IT IS HEREBY ORDERED as follows:-

1. San Joaquin Light and Power Corporation may, after the effective date of this order and on or before March 31, 1939, distribute and transfer to Pacific Gas and Electric Company its plants, properties and other assets in conformity with the provisions of the agreement between said companies dated August 11, 1938, filed as Exhibit "D" in this proceeding.

2. San Joaquin Light and Power Corporation, upon the distribution and transfer of its plants, properties and assets to Pacific Gas and Electric Company, as authorized herein, may cease furnishing and supplying service as a public utility and it hereby 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 so distributed and transferred.

3. Pacific Gas and Electric Company upon acquiring the plants, properties and assets as herein authorized, shall assume and agree to pay the debts, liabilities and obligations of San Joaquin Light and Power Corporation, including its outstanding unifying and refunding mortgage 6% bonds, Series B, due March 1, 1952, and shall assume, perform and discharge all other obligations of San Joaquin Light and Power Corporation, existing and contingent, whether such obligations arise out of contract, tort or judgment or exist under or by force of any law or statute or any municipal or county ordinance or by virtue of the grant or acceptance of any franchise or permit.

4. Pacific Gas and Electric Company and San Joaquin Light and Power Corporation generally may do whatsoever may be necessary and proper for completely winding up and effecting the dissolution of San Joaquin Light and Power Corporation, as provided in the said agreement of August 11, 1938.

5. Pacific Gas and Electric Company upon acquiring the plants, properties and assets of San Joaquin Light and Power Corporation shall record said plants, properties and assets on its books of account in the manner prescribed in the uniform systems of accounts, now in effect.

6. If the Pacific Gas and Electric Company acquires the plants, assets and properties of San Joaquin Light and Power Corporation it shall file with the Commission, unless otherwise directed by the Commission, monthly reports showing by accounts its operating revenues and operating expenses, including depreciation, taxes and uncollectible revenues applicable to the area now served by San Joaquin Light and Power Corporation and the gross and net cost of additions and betterments to its public utility properties in said area.

7. In granting this application, as herein provided, the Commission has made no determination of the value of the properties of San Joaquin Light and Power Corporation.

8. Pacific Gas and Electric Company, within thirty(30) days after execution, shall file with the Commission a certified copy of each deed of conveyance or assignment by which it receives title to the properties acquired from San Joaquin Light and Power Corporation, and at the same time a statement showing the exact date upon which it acquired and commenced operating such properties as its own.

9. The authority herein granted will become effective when Pacific Gas and Electric Company and San Joaquin Light and Power Corporation have filed with the Commission a statement in

which they accept the authorization herein given under the terms and conditions herein specified.

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 13<sup>th</sup> day of October, 1938.

*Rafaela L. L. L.*  
*Leon L. L.*  
*Frank L. L.*  
*Ray L. L.*

COMMISSIONERS.