

Decision No. 35304

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

PUBLIC UTILITIES CALIFORNIA  
CORPORATION, a corporation

to sell, and

COAST COUNTIES GAS AND ELECTRIC  
COMPANY, a corporation,

to purchase, certain properties de-  
scribed as the Boulder Creek Electric  
System, the Capitola Electric System,  
and the Capitola Water System.

ORIGINAL

Application  
No. 24931

Orrick, Dahlquist, Neff & Herrington by  
Justin M. Jacobs, for Public Utilities California  
Corporation.

Bert B. Snyder and Henry G. Hayes, for  
Coast Counties Gas and Electric Company.

BY THE COMMISSION:

O P I N I O N

Public Utilities California Corporation, herein-  
after sometimes referred to as the Seller, and Coast Counties  
Gas and Electric Company, hereinafter sometimes referred to  
as the Buyer, ask permission to consummate the sale and pur-  
chase of the properties covered by the agreement attached as  
Exhibit "B" to the petition in this proceeding, and to perform

all the terms and conditions provided for in such agreement.

The Seller is a California corporation engaged in operating public utility electric, water and telephone properties in California. For 1941, it reports operating revenues of \$482,565.29, segregated as follows:

Electric revenues	\$107,586.97
Water "	165,322.51
Telephone "	209,655.81

The Seller is a wholly-owned subsidiary of Citizens Utilities Company, a Delaware corporation. Citizens Utilities Company is a registered holding company under the Public Utility Holding Company Act of 1935. This Act provides for the registration of holding companies having subsidiaries engaged in the electric and gas utility business. Under the provisions of Section 11(b) of the Holding Company Act, the holding company system is required, on order of the Securities and Exchange Commission, to limit its operations to a single integrated public utility system.

With a view of obtaining an exemption under the Holding Company Act, Citizens Utilities Company has acquired the properties of one of its subsidiaries and has sold, or caused to be sold, the properties of two other subsidiaries. In view of the provisions of Section 26 of the Public Utilities Act, Citizens Utilities Company, a foreign corporation, cannot acquire the utility properties of the Seller. To achieve the exemption, Seller has entered into an agreement to sell its electric distributing system at Boulder Creek and vicinity, its electric distributing system and its water system at Capitola and vicinity to Coast Counties Gas and

Electric Company.

Seller also operates electric properties at Crescent City and Smith River and vicinity in Del Norte County. Its operating revenues from these properties does not exceed \$75,000. Therefore, under the rules of the Securities and Exchange Commission, Citizens Utilities Company is entitled to exemption from the obligations imposed on it by the Holding Company Act, if Seller transfers the Boulder Creek and Capitola electric system.

What has been said does not apply to the water properties at Capitola. The Seller, however, is of the opinion that it cannot operate the Capitola Water properties alone without a substantial increase in operating expenses. It, therefore, asks permission to sell its water properties as well as the electric properties at Capitola.

Public Utilities California Corporation, in its 1941 special reports filed with the Railroad Commission, shows for its Boulder Creek electric division, operating revenues of \$32,063.06; for its Capitola electric division, operating revenues of \$12,430.26, and for its Capitola water properties, operating revenues of \$9,668.51.

The Agreement filed in this proceeding as Exhibit "B" defines the properties which Public Utilities California Corporation proposes to sell to Coast Counties Gas and Electric Company. In general, as said, they consist of the Seller's electric distribution system at Boulder Creek and vicinity, the Seller's electric distribution system at Capitola and vicinity, and the Seller's water system at Capitola and vicinity. The

Agreement fixes the sale and purchase price at \$213,316.17, as of June 30, 1941, subject to the adjustments mentioned in the Agreement. The price is the amount at which the properties are recorded on the books of the Seller less the Seller's reserve for accrued depreciation applicable to its electric properties. The following statement shows the amount at which the properties were recorded on the books of the Seller and the reserve for accrued depreciation:

<u>Item</u>	<u>Boulder Creek Electric</u>	<u>Capitola Electric</u>	<u>Capitola Water</u>	<u>Total</u>
Fixed Capital	\$100,735.99	\$37,236.16	\$104,136.08	\$242,108.23
Less Deprec. Reserve	15,731.83	13,060.23	(3,856.07)	28,792.06
	<u>\$ 85,004.16</u>	<u>\$24,175.93</u>	<u>\$104,136.08</u>	<u>\$213,316.17</u>

It will be observed that the books show a debit balance of \$3,856.07 in the depreciation reserve for the water properties. This came about by Seller charging to the reserve in 1939, \$30,759.65 because of the abandonment of a dam, a pipe line, a tank, and retirement of some minor items of properties. The accrued depreciation on the water properties, now in service at Capitola, has been in Exhibit 7 estimated at \$12,761. We believe that this amount should be recorded on the books of the Buyer concurrently with the recording of the acquisition of the properties.

In Exhibit 4, prepared by the Seller, the depreciation reserve applicable to the Boulder Creek electric properties, as of December 31, 1941, is reported at \$16,814.65 and for the Capitola electric properties at \$13,784.85. In Exhibit 7, prepared by C. T. Mess, Valuation Engineer for the Commission, the

accrued depreciation in the Boulder Creek electric properties, as of the same date, is reported at \$13,314 and in the Capitola electric properties at \$15,998. Exhibit 7 shows an accrued depreciation of \$12,761 in the Capitola water properties. The Buyer proposes to record on its books the accrued depreciation of \$12,761 by transferring the amount from the electric property depreciation reserve. The remainder of the depreciation reserve applicable to the electric properties would be added to the present electric properties depreciation reserve of the Coast Counties Gas and Electric Company. Had the transaction been concluded as of June 30, 1941, the Buyer's electric property depreciation reserve would have been \$2,055,156.32. This sum is equal to about 35% of the company's investment in electric properties.

Charles Grunsky, Chief Engineer for Coast Counties Gas and Electric Company, is of the opinion that a depreciation reserve of \$2,055,156.32 is adequate for the electric properties of Coast Counties Gas and Electric Company and for the Boulder Creek and Capitola electric systems of Public Utilities California Corporation. The amount at issue does not warrant a delay in authorizing the transfer of the properties until a check can be made of the depreciation reserve of Coast Counties Gas and Electric Company. If, hereafter, the Buyer's depreciation reserve is found to be too small, we will direct the Buyer to increase the same by a transfer from surplus.

The evidence shows that there is now recorded on the books of the Seller at \$10,801.44, property which is no

longer used by the Seller in its water and electric operations. All nonoperative properties will be acquired by the Buyer and the investment therein transferred from fixed capital accounts to Account 110, "Other Physical Property."

The sale and purchase price of \$213,316.17, sometimes referred to as the base price, is under the Agreement subject to the following adjustments:

"(a) From the base price there shall be deducted the amount of all depreciation accruals (computed in accordance with the regular practices and rates of Public Utilities - refers to Public Utilities California Corporation -) with respect to the properties covered by this agreement for the period commencing on the 30th day of June, 1941 and ending on the closing date;

"(b) There shall be added to the base price the cost to Public Utilities of all additions and betterments to the properties covered by this agreement made between the 30th day of June, 1941 and the closing date;

"(c) Real and personal property taxes for the current tax year shall be prorated as of the closing date and if a payment be due to Public Utilities on account thereof the same shall be added to the base price, or if a payment be due to Coast Counties on account thereof then the same shall be deducted from the base price;

"(d) There shall be added to the base price stated the amount of all uncollected accounts receivable of Public Utilities with respect to the systems covered by this agreement as of the closing date, less a discount of 5% thereof;

"(e) There shall be added to the base price the cost to Public Utilities of all materials and supplies transferred to Coast Counties pursuant to this agreement;

"(f) Unbilled revenue of said systems accrued during the period between the closing date and the next preceding meter reading date will be prorated and the amount thereof will be added to the base price;

"(g) Service billed in advance at date of closing will be prorated as of the date of closing and the amount thereof will be deducted from the base price;

"(h) The Coast Counties will read its meters used for measuring power purchased by Public Utilities at Boulder Creek and Capitola on the closing date, and render a bill for energy purchased since the last preceding meter reading date. The amount thereof shall be deducted from the base price. Thereafter Public Utilities shall be released of all obligation to purchase additional power from Coast Counties;

"(i) There shall be deducted from the base price the amount of all consumers' deposits held by Public Utilities on the closing date and the amount of all service extension deposits held by Public Utilities on the closing date; and

"(j) If the base price or the amount to be added thereto, pursuant to subparagraph (b) of this paragraph 3, includes any allowance for the items excluded in subparagraphs (1) and (2) of paragraph 1, the amount of such allowance shall be deducted from the base price."

The Buyer has for many years been rendering electric service to the general public in the territory immediately adjacent to that now served by the Boulder Creek electric system, Capitola electric system, and the Capitola water system. It has been selling to the Seller all the electric energy sold by the Seller in the Boulder Creek and Capitola areas. It proposes to integrate Seller's electric systems at Boulder Creek and Capitola with its electric system.

At the hearing, Buyer agreed to the dismissal without prejudice of the application (No. 24797) of the Seller to increase its water rates at Capitola. The Buyer may, after it has familiarized itself with the operations of the water properties, file a new application to increase water rates. In any proceeding involving the rates or service of the water properties, the properties then in service and not necessarily those now acquired by the Buyer, will be considered by the Commission. Likewise, the consideration now paid for the

properties will not, ipso facto, be regarded as the rate base.

O R D E R

A public hearing having been held in the above entitled matter before Examiner Fankhauser, and the Commission having considered the evidence submitted at such hearing and it 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. Public Utilities California Corporation may, on or before September 1, 1942, sell and transfer to Coast Counties Gas and Electric Company, the properties described in Exhibit "B" on file in this proceeding, said properties in general consisting of the Boulder Creek electric, Capitola electric, and Capitola water systems of Public Utilities California Corporation.

2. Public Utilities California Corporation and Coast Counties Gas and Electric Company may perform all the terms and conditions of the agreement filed in this proceeding as Exhibit "B."

3. Concurrently with the transfer of said public utility properties, Public Utilities California Corporation is relieved of its obligation to render public utility electric and water service in the areas now served by it by means of the properties it is herein authorized to sell and transfer to Coast Counties Gas and Electric Company.

4. Coast Counties Gas and Electric Company shall file, in quadruplicate, with the Commission, within twenty



(20) days after it acquires said properties, rates for electric service in the Boulder Creek and Capitola areas and rates for water service in Capitola and vicinity, which rates shall not in any particular be higher than those now charged by Public Utilities California Corporation, and shall also file with the Commission four sets of Rules and Regulations in conformity with the Commission's requirements.

5. Coast Counties Gas and Electric Company shall, within sixty (60) days after it acquires said Capitola water properties, file with the Commission four copies of a comprehensive map, drawn to an indicated scale of not less than 600 feet to the inch, on which shall be delineated correctly by appropriate markings, the territory to which water service will be furnished.

6. The authority herein granted is subject to the condition that the consideration paid for said properties by Coast Counties Gas and Electric Company shall not be urged before this Commission or any other public body as a finding of value of said properties for rate fixing or for any purpose other than the transfer herein authorized.

7. Coast Counties Gas and Electric Company shall within sixty (60) days after it acquires said properties, file with the Commission a copy of the deed or deeds, together with a copy of any other instrument by which title to said properties is conveyed to it, and shall also file with the Commission a statement showing in detail the determination of the consideration paid for said properties.

8. The authority herein granted will become

effective upon the date hereof.

Dated at San Francisco, California, this 19<sup>th</sup> day  
of May, 1942.

Justus J. Coe

Ray H. Riley

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Richard H. ...

Commissioners.