

Decision No. 37551

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of
 COAST COUNTIES GAS AND ELECTRIC COMPANY
 and PACIFIC GAS AND ELECTRIC COMPANY for
 an order of the Railroad Commission of
 the State of California authorizing, among
 other things, the former to sell and
 convey to the latter the public utility
 properties herein mentioned under and in
 conformity with an agreement of sale and
 purchase dated October 27, 1944.

ORIGINAL

Application No. 26438

Felix T. Smith and Henry B. Hayes, for Coast Counties
 Gas and Electric Company.
 R. W. DuVal, for Pacific Gas and Electric Company.

ROSELL, COMMISSIONER:

OPINION

In this application Coast Counties Gas and Electric Company (herein-
 after sometimes referred to as Coast Counties) and the Pacific Gas and Electric
 Company (hereinafter sometimes referred to as Pacific) ask the Railroad Commis-
 sion of the State of California to make its decision and order authorizing, among
 other things, Coast Counties to sell and convey to Pacific and Pacific to acquire
 the Arcata air butane gas system as mentioned and described in the agreement of
 sale and purchase filed in the application as Exhibit "A," and, further, in
 accordance with the amended application, Pacific further requests, among other
 things, that the Railroad Commission of the State of California issue a certifi-
 cate of public convenience and necessity authorizing it to construct, operate
 and maintain a natural gas pipe line in Humboldt County as described in said
 supplemental application and that Pacific be granted the necessary authority to
 change from supplying the present air butane gas to natural gas and to charge
 the rates specified.

The air butane gas properties which Coast Counties has agreed to sell
 and convey to Pacific were placed in operation during May, 1931. For the twelve
 months ending September 30, 1944, the operating revenues are reported at \$22,274

and the operating expenses at \$14,087.80, leaving \$8,186.35 available for depreciation, income taxes and return.

Coast Counties reports in Exhibit 1 the undepreciated cost of its Arcata properties at \$124,794.39. Pacific has agreed to pay for the properties \$50,000, plus or minus the adjustments mentioned in the Agreement of Sale and purchase (Exhibit "A"). The \$124,794.39 includes \$15,021.62 for organization expense and \$14,655.10 of development cost. The Commission heretofore held that development costs should not be charged to fixed capital accounts. The organization expense, which Pacific may record, should be confined to the actual and direct expenses incurred in establishing the Arcata properties. Pacific calls attention to Account (2) 398 - Cost of Plant and Equipment Purchased, of the uniform system of accounts for gas corporations and states that it will as therein provided submit to the Commission for approval the book entries to record the acquired properties. The Pacific shall, within four months after acquiring the properties, submit to the Commission for approval its proposed final entries for recording the properties and a statement showing its estimate of the accrued depreciation in the properties. The Commission will, by supplemental order or otherwise, authorize what it deems to be appropriate accounting entries.

(1) Decision No. 30383, dated December 6, 1937, in Application No. 21549, Vol. 41, CRC page 6.

(2) "398. COST OF PLANT AND EQUIPMENT PURCHASED.

"Unless otherwise ordered or directed by the commission, there shall be included in this account the cost to the corporation of any plant purchased as a whole. Where the contract of purchase includes not only plant and equipment, but also securities and other assets, the appraised value of such securities and other assets shall be deducted from the total cash cost and the remainder of the cash cost shall be charged to this account. Where the consideration given for the property purchased is other than cash, such consideration shall be valued on a current cash basis. If the consideration includes the assumption of liabilities, such liabilities shall be included in the determination of the cost at their cash value at the time the contract is made.

"This account shall be used only as a clearing account in which temporarily to carry the cost of plant and equipment purchased for a lump sum until such time as a plan for making distribution to the primary account appropriate to the property is approved by the commission." etc.

"Note B. The corporation shall be prepared to furnish the commission upon demand a full report of the contract of acquisition of each plant or portion thereof purchased and a statement showing in detail the consideration given therefor. It shall, so far as practicable, procure in connection with the acquisition of any such plant and equipment all existing records, memoranda and accounts in possession or control of the grantor relating to the construction and improvements of such plant and equipment, and shall preserve such records, memoranda and accounts. Where the records, memoranda and accounts are so intimately involved with other records, memoranda and accounts of the grantor as to make their transfer impracticable or inadvisable, certified copies thereof shall, in so far as practicable, be procured."

In the supplemental application, which was heard at the same time as the original, Pacific alleges that upon acquiring the Arcata air butane gas system it proposes, as soon as practical, to substitute natural gas service for the air butane gas service now rendered, which change will require it to construct certain additional natural gas facilities. In this respect, the record shows that in order to make natural gas available to Arcata, Pacific proposes to construct approximately nine miles of 4½-inch gas main, together with related facilities, which will tie in the distribution system at Arcata with Pacific's high pressure gas main system extending through the city of Eureka from the Tomkins Hills Gas Field, southeast of Eureka. The estimated cost of said natural gas project is given as follows:

Landed Capital	\$ 6,500
47,500 feet 4½" O.D. Double Wrapped Main Installed	49,600
Meters and regulators for the city of Arcata	2,450
District regulator and pit in Eureka	<u>150</u>
	\$58,700

Pacific represents that the aforementioned gas main will be constructed and installed, in part, on private rights of way and, in part, on public highways and streets in the city of Eureka, county of Humboldt and the city of Arcata and that no additional franchises will be required to carry on this undertaking.

As soon as the natural gas project is completed, Pacific proposes to cease serving air butane gas, having a heat content of approximately 1,000 B.t.u., in the city of Arcata and adjoining areas and in lieu thereof to supply natural gas service, other than surplus service, with a heat content of approximately 1,040 B.t.u., and at the rates now on file for the city of Eureka. Because of the difference in the burning characteristics of the two gases, at the time of cut-over Pacific will make the necessary adjustment of customer appliances in order to render the new service. The cost involved will be charged by Pacific to its operating expenses, which is estimated in an amount of approximately \$3,300.

Testimony was introduced showing the effect in customer billings under existing rates and service as compared with what the customers will realize with natural gas service under the Eureka rates. In this connection customers will receive a saving ranging from as low as 10 per cent in the minimum charge to over 45 per cent at a consumption of 100,000 cubic feet per month. At 3,000 cubic feet per month the minimum saving will be approximately 25 per cent. There are no increases involved.

While it is apparent that, after the cut-over to natural gas and the initial reduction in earnings resulting therefrom, the Arcata system will fail to meet its full cost of service by a considerable margin, nevertheless with the cheaper natural gas service available customer usage will increase and additional business should develop, which eventually should justify Pacific entering this territory.

It appears to me that the proposed transaction of the transfer of the Arcata gas system, along with the conversion to natural gas, is in the public interest and I recommend the following form of order.

O R D E R

A public hearing having been held on the above entitled application, the matter having been submitted and fully considered and it being found as a fact that the request of Coast Counties Gas and Electric Company to sell and convey to the Pacific Gas and Electric Company the former's air butane gas system at Arcata is in the public interest and should be authorized and that the Pacific Gas and Electric Company should be permitted to convert the air butane gas service at Arcata and vicinity to natural gas, therefore

It is hereby found as a fact that public convenience and necessity so require and Pacific Gas and Electric Company is hereby granted a certificate to construct, operate and maintain the gas transmission line project described in the above numbered application and to supply natural gas service therefrom to the city of Arcata and adjoining territory, and

IT IS HEREBY ORDERED as follows:

1. That Coast Counties Gas and Electric Company may sell and convey, on or before February 1, 1945, to Pacific Gas and Electric Company

and the latter may purchase the properties and business described in the agreement of sale filed in this application as Exhibit "A," said sale, conveyance and purchase to be made in accordance with the terms of said agreement. Said Coast Counties and Pacific may consummate the aforesaid agreement in accordance with its terms.

2. Upon the sale of said properties Coast Counties is relieved from the obligation of furnishing and supplying the gas service as a public utility in Arcata and vicinity.
3. Pacific Gas and Electric Company, upon acquiring said properties from Coast Counties Gas and Electric Company, may withdraw and cancel tariff schedules of the latter, in so far as they relate to the utility service in Arcata and vicinity, and refile said tariff schedules in its name and make effective in Arcata and vicinity its filed rules and regulations covering the furnishing and supplying of gas service.
4. Pacific Gas and Electric Company, after it shall have cut over to natural gas service in the city of Arcata and adjacent areas, shall refile its presently effective Eureka gas rates, other than surplus, so as to cover the new service area and shall charge and collect for such natural gas service at said Eureka rates, effective for regular meter readings taken on and after the 15th day following commencement of such natural gas service and shall cancel and withdraw the then effective rates for air butane gas service.
5. Pacific Gas and Electric Company shall, within four (4) months after the date hereof, file with the Railroad Commission of the State of California for approval a statement showing the entries for intangible capital together with original cost of the tangible properties of the Arcata gas system and an estimate of the depreciation reserve in said properties.
6. Coast Counties Gas and Electric Company shall file with the Railroad Commission of the State of California for approval the book entries recording the sale of said properties.
7. The action taken herein shall not be taken as a finding of value for any purpose other than the proceeding herein involved.
8. The authority herein granted shall become effective on the date hereof.

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 15th day of December, 1944.

Richard L. Chase

Francis K. Havens
George B. Bann

Walter K. Kull
Commissioners