

Decision No. 37571

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of California Public Service 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 September 22, 1944.

Application No. 26382

Orrick, Dahlquist, Neff, Brown & Herrington,
by Hillyer Brown, for California Public
Service Company.

R. W. DuVal, for Pacific Gas and Electric Company.

CLARK, COMMISSIONER:

O P I N I O N

In this application, California Public Service Company, hereinafter sometimes referred to as Public, and Pacific Gas and Electric Company, hereinafter sometimes referred to as Pacific, ask the Railroad Commission to enter its Order (1) authorizing

Public to sell and convey to Pacific, and authorizing the latter to purchase from the former, its public utility properties and business situate in Mendocino County, California, more particularly described in the Agreement of Sale on file in this application as Exhibit "B," and authorizing applicants to consummate said agreement fully in accordance with its terms, and (2) authorizing Pacific to issue 14,000 shares of its first preferred 6% capital stock and to deliver said shares of stock to Public, as provided in said Agreement of Sale, and authorizing Public to acquire, take and hold said shares of stock until it shall sell the same to Provident Mutual Life Insurance Company of Philadelphia or to other Purchasers, and (3) authorizing Public, upon the sale and conveyance to Pacific of its properties and other assets referred to in this application, to cease furnishing and supplying service as a public utility and relieve Public 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 sold and conveyed as aforesaid, and (4) authorizing Pacific, upon acquiring said properties and business of Public, to withdraw and cancel the tariff schedules of the latter insofar as they relate to public utility service in the territory involved and to refile said tariff schedules (excepting electric rules and regulations) in Pacific's name, and to make effective in the territory involved, Pacific's filed rules and regulations governing the furnishing and supplying of electric service.

California Public Service Company is a California corporation. It is engaged as a public utility in distributing

electricity in Fort Bragg and vicinity, in Willits and vicinity, both in Mendocino County; in Alturas and vicinity in Modoc County, California, and in Lakeview and vicinity in Lake County, Oregon. It also distributes water in Willits and vicinity. Public for 1943 reports operating revenues of \$397,576.87, segregated as follows:

A - Electric Revenues -	
Fort Bragg District	\$106,631.24
Willits District	53,761.84
Alturas District	101,947.62
Lakeview, California District	2,582.01
Lakeview, Oregon District	<u>112,099.49</u>
Subtotal	377,022.20
B - Water Revenue - Willits	<u>20,554.67</u>
Total	<u>\$397,576.87</u>

Public has outstanding \$557,000 par value of common stock and \$574,000 of first mortgage bonds, Series B, 4½%, due November 1, 1964. All of the stock is owned by Peoples Light and Power Company. The bonds are all owned by the Provident Mutual Life Insurance Company of Philadelphia. Peoples Light and Power Company, which as said owns all of Public's outstanding stock, is a registered public utility holding company under the Public Utility Holding Company Act of 1935. It desires to dispose of its properties in compliance with a plan of simplification of the Peoples Light and Power Company's system, filed with the Securities and Exchange Commission under Section 11 of said Holding Company Act. Public has entered into an agreement to sell its properties situate in Modoc County, California, and in Lake County, Oregon, to The California Oregon Power Company. (1)

(1) Application No. 26400.

It has agreed to sell such properties for \$470,000, subject to the adjustments recited in the Agreement of Sale filed as Exhibit "A" in Application No. 26400.

In Exhibit 3, Public reports the cost of its properties situate in Mendocino County at \$663,838.19, segregated as follows:

Electric	\$414,154.64
Water	<u>249,683.55</u>
Total	<u>\$663,838.19</u>

Its depreciation (retirement) reserve applicable to such properties is reported at \$173,697.02. Of this sum, it allocates to its electric properties \$94,893.48 and to its water properties \$78,803.54. The cost of the properties less the reported depreciation reserve amounts to \$490,141.17.

Pacific has agreed to deliver to Public for said properties, 14,000 shares (par value \$350,000) of its first preferred 6% capital stock, together with cash adjustments for accounts receivable and other items mentioned in the Agreement of Sale. The testimony shows that Pacific is assigning a value of \$37.25 per share to the stock or is issuing it on about a 4% basis. At \$37.25 per share, the 14,000 shares have a market value of \$521,500. E. J. Beckett, Treasurer of Pacific, testified that the issue of the 6% stock at the premium suggested will result in a more conservative capital set up than the issue of say \$521,500 par value of 4% preferred stock at par and will, so long as Pacific is in the excess profits tax class and pays taxes under current rates, save Pacific taxes ranging from \$19,000 to \$20,000 a year. The tax savings approximate the annual dividend on the 14,000 shares of preferred stock.

Public proposes to sell the 14,000 shares of stock at their market value to Provident Mutual Life Insurance Company of Philadelphia, and with the proceeds acquire from said Insurance Company at their call price as many of Public's first mortgage bonds as said proceeds will purchase.

Pacific will for the time being continue in force and effect the presently filed and effective electric rates and water rates of Public. Pacific does propose and asks permission to make effective in the territory involved its filed rules and regulations governing the furnishing of electric service which rules and regulations are more liberal than those of Public. Pacific will refile Public's rules and regulations governing water service.

Pacific is now selling to Public all of the electric energy sold by it in Willits and vicinity. The electric energy distributed in Fort Bragg and vicinity is acquired from Union Lumber Company. All contracts relating to public utility service to which Public is a party will be assumed by Pacific.

Pacific shall, as required by Account 391, Electric Plant Purchased, (2) of the Uniform System of Accounts for Electric Cor-

(2) Account 391, Electric Plant Purchased, reads as follows:

"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."

porations, file with the Railroad Commission within six months after it acquires said properties, the data required by said system of accounts.

I herewith submit the following form of Order.

O R D E R

A public hearing having been held on the above entitled matter and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of 14,000 shares of first preferred 6% stock by Pacific Gas and Electric Company is reasonably required by said Pacific Gas and Electric Company for the purpose herein stated, and that the expenditures for said purpose are not, in whole or in part, reasonably chargeable to operating expenses or to income, subject to the amortization of the charge, if any, to Account 100.5, Electric Plant Acquisition Adjustments, therefore,

IT IS HEREBY ORDERED as follows:

1. California Public Service Company may sell and convey to Pacific Gas and Electric Company, on or before March 31, 1945, and Pacific Gas and Electric Company may purchase from California Public Service Company the public utility properties and business described in the Agreement of Sale on file in this application as Exhibit "B," said sale and purchase to be made in accordance with the terms and conditions set forth in said Agreement of Sale. Applicants may consummate said agreement fully in accordance with its terms.

2. Pacific Gas and Electric Company may issue and deliver to California Public Service Company, on or before March 31, 1945, 14,000 shares of its first preferred 6% capital stock, said shares of stock to be delivered to California Public Service Company as provided in said Agreement of Sale. California Public Service Company may acquire, take and hold said shares of capital stock until it shall sell the same to Provident Mutual Life Insurance Company of Philadelphia or to other purchasers.

3. California Public Service Company, upon the sale and conveyance to Pacific Gas and Electric Company of its properties and other assets described in said Agreement of Sale, 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 described in said Agreement of Sale.

4. Pacific Gas and Electric Company shall within thirty (30) days after acquiring said properties and business of California Public Service Company withdraw and cancel the tariff schedules of California Public Service Company insofar as they relate to public utility service in the territory involved, and refile said tariff schedules, rules and regulations (excepting electric rules and regulations) in the name of Pacific Gas and Electric Company and make effective in the territory involved, Pacific Gas and Electric Company's filed rules and regulations governing the furnishing and supplying of electric service.

5. The action taken herein shall not be construed to be a finding of value for any purpose other than the proceeding herein involved.

6. Pacific Gas and Electric Company shall file with the Railroad Commission a report in compliance with the Commission's General Order No. 24-A, which Order, insofar as applicable, is made a part of this Order. It shall also file with the Commission within thirty (30) days after the acquisition of said properties a copy of the deed and bill of sale under which it acquires and holds title to said properties.

7. The authority herein granted will become effective upon 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 19th day of December, 1944.

Robert L. ...
Justus A. ...
Francis D. ...
Francis D. ...
... ..
Commissioners.