

Decision No. 37953

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the matter of the application of EDWARD N. FROST and ELSIE H. FROST, co-partners doing business under the name and style of LONG VALLEY LIGHT AND POWER COMPANY, and PACIFIC GAS AND ELECTRIC COMPANY, 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 February 1, 1945.

Application No. 26610

R. W. DuVal, for the Applicants

BY THE COMMISSION:

O P I N I O N

Edward N. Frost and Elsie H. Frost, co-partners doing business under the name and style of Long Valley Light and Power Company, ask permission to sell their electric utility properties located in and about the Town of Laytonville, Mendocino County, California, to the Pacific Gas and Electric Company. The latter requests permission to acquire and operate said properties. A copy of the agreement covering the purchase and sale of the properties is filed with the application as Exhibit "A."

The Long Valley Light and Power Company is a small public utility operating a generating plant and distribution facilities in and about the Town of Laytonville in Mendocino County, California. Energy is produced in a diesel generating plant having an aggregate capacity of 150 kilowatts. During the year 1944 sales of 41,296 kilowatt hours were reported for which the customers paid an average rate of 12.6¢ per kilowatt hour.

The annual reports of the company on file with this Commission, which were made a part of this record by reference, show the following relationship

between revenues, expenses and balance for return for the three years indicated:

Statement of Revenues and Expenses

	<u>1942</u>	<u>1943</u>	<u>1944</u>
<u>Operating Revenues</u>			
Sales to Customers	\$6,264.14	\$4,810.33	\$5,219.34
<u>Expenses</u>			
Operation	3,556.45	3,029.54	4,110.01
Salaries of officers	1,560.94	1,546.25	1,834.10
Insurance	178.35	180.50	248.90
Taxes - County	107.50	101.06	110.19
Social Security	10.60	14.06	15.47
Excise	208.60	160.18	174.25
Depreciation	1,115.03	1,115.03	1,115.03
Balance	(473.33)	(1,336.29)	(2,388.61)

Witness Frost appearing in behalf of the sellers testified that it was seller's desire to withdraw from the public utility operations in which they are now engaged, and to be relieved from all further duties and responsibilities associated with that operation.

Witness Sutherland⁽¹⁾ appearing in behalf of the buyer presented testimony covering the plans of the buyer for the future operation of the properties and a summary of the circumstances which influenced the contract price set forth in the sales agreement. In this respect it is of record that buyer operates electric production, transmission, and distribution facilities throughout the greater portion of northern California and a portion of which facilities are in the County of Mendocino.⁽²⁾ Witness for buyer testified that if it acquired the Long Valley Light and Power Company it proposed to make available central station service tying in this isolated system with its

(1) N. R. Sutherland, formerly Commercial Manager of Pacific Gas and Electric Company and presently San Francisco Division Manager of the same company, conducted the negotiations for the buyer.

(2) Pacific Gas and Electric Company acquired the properties formerly owned by California Public Service Company serving the Willits and Fort Bragg areas of Mendocino County under the authority granted by Decision No. 37571 in Application No. 26382.

(Inverse Item)

general system at Willits by extending its present transmission system north from Longvale to the present Laytonville system, a distance of approximately seven and one-half miles. This construction would be undertaken as soon as necessary release governing the use of material and labor could be secured from the appropriate federal authorities. When service over the Willits-Longvale-Laytonville line is available buyer proposes to shut down the comparatively high-cost diesel generating plant of seller, but to maintain the plant as standby.

In reference to electric rates to be charged, it is buyer's plan to continue in effect the present rate schedules of the seller, but when central station service is given to make available the much lower rates effective in the Willits territory.

As revealed by Exhibit "A," buyer has agreed to pay the sum of \$15,000 for the properties, subject to minor adjustments to reflect the changes in the inventory of materials and supplies on hand between the date of agreement and date of acquisition.

The buyer introduced as Exhibit No. 1 the results of an appraisal as of October, 1944, in summary form, of the electric system prepared by its Valuation Department. The estimated undepreciated historical cost as set forth in the appraisal exceeded the amount reported by the seller to the Commission in its annual report, as of December 31, 1944, by \$11,282.62. Likewise, the estimated depreciation as reflected in Exhibit No. 1 of the buyer exceeded the amount reported to the Commission in the annual report of the seller by \$2,635.89. The buyer's witness, who introduced Exhibit No. 1, stated that in his opinion the capital accounts, as recorded on the books of the utility, do not properly reflect the historical cost of the properties. In arriving at the undepreciated historical cost, as of October, 1944, in an amount of \$22,374, the witness stated that the appraisal was based upon a field inventory of the equipment to which were applied estimated historical unit costs and general overheads of 16%, the latter being applied to tangible nonlanded plant accounts other than miscellaneous power plant equipment, to

which an 8% overhead was applied. The buyer should file with the Commission a copy of the inventory and appraisal on which Exhibit No. 1 is based.

In support of the purchase price, Witness Sutherland stated that he had given consideration to the properties, including the diesel plant, buildings, land and distribution facilities, which would be acquired, franchise and certificate to operate, business, books and records, and the potential business in the area which may be developed as well as competitive aspects of the area. It was further Mr. Sutherland's view that his company was warranted in making the \$15,000 payment for the property plus the estimated investment of \$20,000 in the transmission tie line, inasmuch as such total investment would be justified under his company's present line extension rule. In reference to the expected gross revenue he concluded that it would be fair to assume about half⁽³⁾ that received in 1942 or \$3,200 plus another \$1,000 for expected growth in business.

It was of further record that the Long Valley Light and Power Company is operating under a limited franchise as to territory granted by the Mendocino County Ordinance No. 252 for which a certificate to exercise such franchise was granted by this Commission in 1936 by Decision No. 29129. Buyer pointed out that it held a county-wide franchise for the same county by reason of Ordinance No. 258 and held a certificate from this Commission under date of February 25, 1941, by Decision No. 33946⁽⁴⁾

- (3) The application of the Willits rates will result in a nearly 50% reduction in customer billing.
- (4) The Order in Decision No. 33946 (Application No. 21744) reads in part as follows: "It appearing, and being found as a fact that public convenience and necessity so require, Pacific Gas and Electric Company is hereby granted a certificate to exercise the rights and privileges granted by the County of Mendocino by Ordinance No. 258 adopted December 16, 1936, to the extent that Pacific Gas and Electric Company may exercise said rights and privileges within such parts or portions of said county as are now served by it or as hereafter may be served by it through extensions of its existing system made in the ordinary course of business as contemplated by Section 50(a) of the Public Utilities Act, provided, however, that this certificate shall be subject to the stipulation given by Pacific Gas and Electric Company that, except upon further authority of this Commission first obtained, it will not exercise such franchise for the purpose of furnishing or supplying electricity in those parts or portions of said county now being served by Central Mendocino County Power Company, the City of Ukiah, California Public Service Company, Benbow Power Company, Pt. Arena Electric Light and Power Company, or E. N. Frost, and subject also to the condition that the Railroad Commission may hereafter by appropriate proceeding and order limit the authority herein granted as to any territory within said county not then being served by Pacific Gas and Electric Company."

The Commission is of the opinion that the acquisition of the Long Valley Light and Power Company properties by the Pacific Gas and Electric Company will generally redound to the benefit of the consumers now served by the former company, because of the prospective lower rates and improved electric service.

In reference to the appraisal figures submitted by buyer the Commission is not prepared to accept these as representing the historical cost of the properties under purchase.

Upon the construction of the tie line, seller's diesel plant will be shut down and used as a standby plant until its removal is advisable. In Exhibit No. 1 a remaining life of two years has been assigned to the diesel plant. The record shows that the physical integration of the properties will afford a higher standard of service to the consumers now served by Long Valley Light and Power Company than they have heretofore experienced. In our opinion, the cost of this service should be reduced by the retirement of the diesel plant when the tie line is placed in operation. The undepreciated investment in the diesel plant may be amortized through charges to Account 506 within two years after placing the tie line in operation.

Pacific Gas and Electric Company shall in due time submit the Journal Entries required by Account 391 - Electric Plant Purchased.⁽⁵⁾

No one appeared in opposition to the granting of the application.

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

"391. Electric Plant Purchased.

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."

O R D E R

A public hearing having been held on the above entitled matter and the Commission having considered the evidence submitted at such hearing, and it being of the opinion that the granting of this application is in the public interest, therefore,

IT IS HEREBY ORDERED that Edward N. Frost and Elsie H. Frost be, and they are hereby, authorized to sell and transfer on or before June 30, 1945, to the Pacific Gas and Electric Company the properties and business described in the agreement filed with this application as Exhibit "A." The Pacific Gas and Electric Company may acquire and operate said properties and business. The sale and transfer of the properties shall be consummated in accordance with the terms and conditions of said agreement.

IT IS HEREBY FURTHER ORDERED that the restriction to the certificate granted Pacific Gas and Electric Company by Decision 33946 in Application No. 21744 to the extent it applies to the transfer of the properties herein authorized, is hereby withdrawn.

IT IS HEREBY FURTHER ORDERED that Edward N. Frost and Elsie H. Frost, concurrently with the transfer and conveyance of the properties involved, may cease supplying and furnishing electric service in and about the Town of Laytonville and are henceforth relieved of the duties and functions of an electric public utility.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company, upon acquiring the said properties and business, may withdraw and cancel the rate schedules and rules and regulations of the Long Valley Light and Power Company, and shall refile the rate schedules of the Long Valley Light and Power Company in the name of Pacific Gas and Electric Company, and shall make effective, in the territory involved, rules and regulations of Pacific Gas and Electric Company presently on file with this Commission.

IT IS HEREBY FURTHER ORDERED that within thirty (30) days after the sale and transfer of said properties Pacific Gas and Electric Company shall

file with the Railroad Commission a copy of the deed and other instruments under which it acquired and holds title to said properties together with a copy of the inventory and appraisal of the properties acquired.

IT IS HEREBY FURTHER ORDERED that the action herein taken shall not be construed to be a finding of value for any purpose other than the proceeding herein involved.

IT IS HEREBY FURTHER ORDERED that the authority herein granted will become effective upon the date hereof..

Dated at San Francisco, California, this 29th day of May, 1945.

David Dubuque
Justice F. Casper
Richard Karpis
Francis Clark
Earl H. Sells
(Commissioners)