

Decision No. 38886

**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

IN THE MATTER OF THE APPLICATION  
OF COAST COUNTIES GAS AND ELECTRIC  
COMPANY AND CALIFORNIA-PACIFIC  
UTILITIES COMPANY FOR AN ORDER OF  
THE RAILROAD COMMISSION OF THE  
STATE OF CALIFORNIA AUTHORIZING THE  
FORMER TO SELL AND CONVEY TO THE  
LATTER THE PUBLIC UTILITY PROPERTIES  
HEREIN MENTIONED UNDER AND IN CONFORM-  
ITY WITH AN AGREEMENT OF SALE AND  
PURCHASE DATED NOVEMBER 8, 1944.

Application  
No. 26437

BY THE COMMISSION:

FIRST SUPPLEMENTAL ORDER

The Railroad Commission by Decision No. 37550, dated December 15, 1944, authorized Coast Counties Gas and Electric Company to sell to California-Pacific Utilities Company its butane-air gas systems situated at Yreka and Dunsmuir. Paragraph four of the order in said decision reads as follows:

"4. California-Pacific Utilities Company shall within four months after the date hereof file with the Railroad Commission for approval a statement showing, by accounts, the actual cost (estimated if not known) of said tangible properties to Seller and its predecessor and the accrued depreciation in said properties. California-Pacific Utilities Company shall also file with the Commission for approval the book entries recording the purchase of said properties."

California-Pacific Utilities Company on May 25, 1945, filed its revised book entries. It paid for the properties exclusive of materials and supplies \$50,693.90, and proposes to record the purchase of the same on the basis of their original cost. Its book entries may be summarized as follows:

	<u>YREKA</u>	<u>DUNSMUIR</u>	<u>TOTAL</u>
Total original cost of systems	\$95,479.44	\$114,326.23	\$209,805.67
Less: Acquisition costs of the property allocated to two systems on property basis	<u>23,101.21</u>	<u>27,592.69</u>	<u>50,693.90</u>
Excess of Original Cost over amount paid for the systems	\$72,378.23	\$ 86,733.54	\$159,111.77
Less Accrued Depreciation to 12/20/44	<u>12,855.15</u>	<u>17,182.22</u>	<u>30,037.37</u>
Amount to be credited to Utility Plant Acquisition adjustments and amortized over remaining life of property on 6% sinking fund basis	<u>\$59,523.08</u>	<u>\$ 69,551.32</u>	<u>\$129,074.40</u>

The above figures include \$1,756.26 for intangible capital, whereas Seller had recorded such capital on its books at \$65,161.40.

We find the book entries filed by California-Pacific Utilities Company on May 25, 1945, in satisfactory form.

IT IS HEREBY ORDERED that California-Pacific Utilities Company may enter on its books for the purpose of recording the purchase of said butane-air gas systems at Yreka and at Dunsmuir the book entries filed with the Commission on May 25, 1945.

Dated at <sup>San Francisco</sup> ~~Los Angeles~~, California, this 25<sup>th</sup> day of

*7/25/45*  
July, 1945.

*David Rudolph*  
~~Commissioner~~

*James C. ...*

*James C. ...*  
Commissioners

Dissent by Commissioner Sachse  
in Application No.-26437

I dissent because the preceding order authorizes an accounting procedure contrary to the Uniform System of Accounts for Gas Corporations prescribed by this Commission (1) and because the facts of the transaction to be accounted for, if the entries are made as authorized, will not square with and will be contrary to the book entries. The authorized accounting procedure will also complicate future regulation of this utility and will be misleading in rate and other proceedings.

The record of the transaction is undisputed and simple. Coast Counties Gas and Electric Company, the seller, agreed to sell and California-Pacific Utilities Company, the buyer, agreed to buy two Butane-air gas properties located in Yreka and Dunsmuir, California. The transfer has been made and the price paid for the properties, as agreed upon after fair and arms-length negotiations between seller and buyer, was \$50,693.90 (exclusive of material and supplies). The buyer has paid this sum to the seller. On December 15, 1944, in Decision No. 37550 we approved the agreement to sell, including the sale and purchase price, and granted the application as being in the public interest. There is now before us the question of how the cost of the acquired property is to be recorded in buyer's books of account. (2)

The majority in the preceding first supplemental order authorizes the recording by the buyer of the "total original cost of systems" in the amount of \$209,805.67, showing an "excess of original cost over amount paid for the systems" of \$159,111.77. After de-

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(1) Effective January 1, 1924, for Class A Corporations and January 1, 1926, for Class B and Class C Corporations.

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(2) The Commission's supplemental order does not deal with the loss accruing to the seller from this transaction, nor with the seller's required accounting entries. It is a fact, however, that the accounting entries of the seller are in conformity with our prescribed System of Accounts and in harmony with the principles and procedure recommended in this dissent.

ducting "accrued depreciation to 12/20/44" in the amount of \$30,037.37<sup>(3)</sup> there remains an "amount to be credited to utility plant acquisition adjustments and amortized over remaining life of property on 6% sinking fund basis" of \$129,074.40. The amount of \$209,805.67 designated as "total original cost of systems" is the alleged original cost (plus additions and betterments) to the seller and has no relation to the actual cash cost to the buyer, which was \$50,693.90.

My objection is to the inclusion in California-Pacific Utilities Company's accounts, as "cost" to the buyer, any amount in excess of the actual cost of acquisition of \$50,693.90. To show on the books of the buyer any cost amount greater than this sum is contrary to the facts, and contrary to this Commission's Uniform System of Accounts for Gas Corporations, supra. This prescribed accounting system is specific in its requirements as to how transactions of this nature shall be recorded. In the general instructions and definitions of the classification of fixed capital accounts, Section 4 reads as follows:<sup>(4)</sup>

"Sec. 4. BASIS OF CHARGES. The charges to the fixed capital accounts shall be based upon the cost of the property acquired. When the consideration given for the purchase or the improvement of property, the cost of which is chargeable to such accounts, is other than money, the money value of the consideration at the time of the transaction shall be charged to the fixed capital accounts and the actual consideration shall be described in the record in sufficient detail to identify it. The corporation shall be prepared to furnish to the commission, upon demand, the particulars of its determination of the actual cash value of the consideration if other than money." (Emphasis supplied)

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<sup>(3)</sup> This was the depreciation accrued by the seller (not by the buyer) and in the seller's accounts this depreciation accrual has been treated as offsetting, in part, the loss incurred by this transaction. The balance of the loss in the buyer's accounts is charged to profit and loss.

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<sup>(4)</sup> Page 36, Uniform System of Accounts for Gas Corporations, 1945 reprint.

Additional definitions of the term "cost" appear in this accounting classification and no doubt is left that by cost is meant the actual consideration in money at the time of the transaction. No consideration other than money is involved in the purchase of this property.

A recording of the true facts of this transaction in accordance with the prescribed system of accounts requires the entry of this purchase in the buyer's fixed capital accounts, under Account 398, Cost of Plant and Equipment Purchased, in the total amount of \$50,693.90 (\$23,101.21 for the Yreka property and \$27,592.69 for the Dunsmuir property). (5) The buyer should be required to set up the proper de-

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(5) The definition of this account is as follows:

**"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.

When a plant is purchased and the fixed improvements and/or equipment acquired are in such physical condition that it is necessary substantially to rebuild the plant in order to bring it up to the standard required by the corporation, the cost of such rebuilding shall be charged to this account, but as a separate item. When the work of reconstruction is completed the cost thereof shall be credited to this account and charged to other fixed capital accounts appropriate for the expenditures made. A comprehensive statement of the estimated amount necessary to reconstruct a plant in accordance with the above provision shall be made to the commission as soon as the estimate is made.

NOTE A. The value at the time of purchase of any securities or other assets acquired in connection with the purchase of a plant shall be included in the accounts appropriate for such assets. The par value of any liability assumed in such transaction shall be included in the appropriate liability

preciation against the acquired depreciable property represented by all or part of the actual cost of such property, not exceeding \$50,693.90.

  
Richard Sachse, Commissioner.

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(5) contd.

accounts and any necessary adjustment between the cash value charged to the property accounts and par value shall be made in the appropriate premium or discount account.

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."