

ORIGINAL

Decision No. 39994

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of HOBART ESTATE COMPANY, a corporation, and ELLIOTT S. McCURDY, as Special Administrator in the State of California of the Estate of Emma H. Rose, also known as Emma Rose, deceased, together doing business under the name and style of Utica Power Co., a joint venture, and PACIFIC GAS AND ELECTRIC COMPANY, a California corporation, for an order of the Railroad Commission of the State of California granting and conferring upon applicants all necessary permission and authority to consummate in accordance with its terms an agreement of sale and purchase entered into by applicants and dated the 13th day of June, 1946, etc.

Application No. 27770

FIRST SUPPLEMENTAL OPINION

As of November 6, 1946, Pacific Gas and Electric Company, under authority granted by Decision No. 39507, dated October 8, 1946, in the above entitled matter, acquired from Hobart Estate Company and Elliott S. McCurdy as Special Administrator of the estate of Emma H. Rose, deceased, certain electric and water properties located in Calaveras County. The purchase price of the properties was reported at \$250,000.00.

Following the original hearing and decision in this matter, Pacific Gas and Electric Company has had prepared an inventory and appraisal of the properties. On December 17, 1946, a further hearing was held for the purpose of receiving into the record supplemental evidence relative to the cost of the properties and accounting matters.

It appears that the former owners of the properties had included in their plant accounts, as of December 31, 1945, the

total sum of \$1,200,187.69 and that of this amount the sum of \$11,851.78 represented book costs of properties which were not transferred to Pacific Gas and Electric Company, leaving a balance of \$1,188,335.91. The record clearly shows, however, that the book figures are faulty in some respects. Among other things, certain properties heretofore had been retired on the books which remain in use; other properties which were disclosed by the inventory, had not been taken into the books; the distribution accounts particularly do not properly reflect replacements and betterments; and, in some cases, the books reflect properties not included in the inventory. Further, there appear to be some duplications and some improper allocations of cost between accounts.

For these reasons, the book figures of the former owners, in this particular case, do not in their entirety appear to be acceptable as such for entry into the plant accounts of the purchaser and it becomes necessary to consider estimates of cost.

There is of record as Exhibit "12", an appraisal of the properties prepared by the Valuation Department of Pacific Gas and Electric Company showing historical costs, exclusive of materials and supplies, as of May, 1946, as follows:

	<u>Total</u>	<u>Accrued Depreciation</u>	<u>Less Accrued Depreciation</u>
Electric System:			
Hydraulic Production	\$ 944,471	\$317,566	\$626,905
Distribution Plant	209,239	81,974	127,265
General Plant	1,171	773	398
Total Electric System	<u>1,154,881</u>	<u>400,313</u>	<u>754,568</u>
Domestic Water System	52,381	29,202	23,179
Common Utility Plant	24,562	13,064	11,498
Non-operative Plant	<u>10,992</u>	<u>5,752</u>	<u>5,240</u>
Totals	<u>\$1,242,816</u>	<u>\$448,331</u>	<u>\$794,485</u>

The testimony given in support of the appraisal indicates that in general, so far as the production accounts are concerned, the figures presented are based on book costs, with adjustments to some items of property where the field inventory showed them to be necessary. So far as the distribution accounts are concerned, the figures contained in the appraisal appear to represent unit costs, predicated on records of the former owners, applied to the inventory in order to develop the estimated cost of the properties now in service.

There are included in the appraisal of the hydraulic production accounts certain items of property, referred to as the Union Ditch, the Gold Cliff Ditch, and the Lane Reservoir, with an estimated historical cost of \$8,680 and an estimated historical cost less accrued depreciation of \$4,841. It appears that these structures are used to divert water for the benefit of certain water users' associations pursuant to contractual obligations to maintain a continued diversion of certain waters undertaken by the former owners of the properties a number of years ago as a result of litigation, which obligations Pacific Gas and Electric Company, as a part of its agreement to purchase the properties of the former owners, has agreed to assume and fulfill.

However, the record is clear that the Union Ditch, the Gold Cliff Ditch and the Lane Reservoir are not necessary for the operation of the electric system and should not be included as operative electric department capital. In our opinion the cost of these properties should be included in Account 110, Other Physical Property. Under the circumstances disclosed at the hearings it does not appear to be unreasonable, for the purpose of this proceeding, to accept the estimated historical cost figures

as representing the original cost of the properties referred to in Exhibit "12". In making the order herein the Commission is not committing itself to approve or accept any item set out in any account in the appraisal for the purpose of fixing rates or in deciding other matters which may come before the Commission in the future.

FIRST SUPPLEMENTAL ORDER

A further hearing having been held in the above entitled application, the Commission having duly considered the matter, and good cause appearing,

IT IS HEREBY ORDERED that Pacific Gas and Electric Company be, and it hereby is authorized, in recording on its books the cost of the properties acquired from Hobart Estate Company and Elliott S. McCurdy as Special Administrator of the estate of Emma H. Rose, deceased, to charge to electric plant accounts and water fixed capital accounts and to materials and supplies, except for the charge of \$8,680 to Account 110, as set forth in the preceding supplemental opinion, the historical cost figures as set forth in Exhibit "12" filed in this proceeding; to credit to its reserves for depreciation the estimated amount of accrued depreciation applicable to said properties as set forth in said exhibit, with adjustments to such charges and credits for additions and retirements since the date of the appraisal; and to credit to Account 100.5, the excess of such historical cost figures, less estimated accrued depreciation, as so adjusted at the time of transfer of the properties, over the purchase price paid for such properties.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is for the purpose of this proceeding only and is not to be construed as a finding of value of the properties referred to herein.

Dated at San Francisco, California, this 25th day of February 1947.

Harold A. Kull
Justin J. Gessner
Wm. H. Powell
A. F. Johnson
Wm. H. Powell

Commissioners