

Decision No. 41958

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

IN THE MATTER OF THE

- (1) Application of KENNETH E. KNAPP, dba GARBERVILLE GAS COMPANY, for an order authorizing the sale of property, including Certificate of Public Convenience and Necessity:
- (2) Application of GARBERVILLE GAS CORP., a corporation, for order authorizing issue of stock.

ORIGINAL

Application
No. 29131

FIRST SUPPLEMENTAL OPINION

By Decision No. 41350, dated March 23, 1948, in the above entitled matter, the Commission, among other things, in considering a request made by Garberville Gas Corp., to issue \$50,000 par value of stock in payment for the properties of Kenneth E. Knapp, authorized the corporation to issue only \$35,000 par value of such stock, holding in abeyance the request to issue the remaining \$15,000 of stock. On this point, the opinion in the said decision reads as follows:

If it (Garberville Gas Corp.) submits an inventory of its properties, the actual cost, estimated if not known, of such properties and an estimate of the accrued depreciation in the properties, we will give further consideration to its request to issue additional stock in the amount of \$15,000.

It appears that pursuant to said decision, Garberville Gas Corp. has acquired the properties of said Knapp and has issued the \$35,000 par value of stock. In a subsequent application (No. 29383) filed on May 28, 1948, in requesting

(1) The properties involved were those used by said Knapp in distributing gas in Garberville under rates filed with the Commission, and in selling tank gas and leasing and selling tanks and gas appliances.

permission to increase rates, it presented a financial statement showing its assets and liabilities as of April 30, 1948, and offered testimony relating to the nature and extent of its properties and to their cost and estimated value. The statement shows for a franchise on appraised value of \$2,000 and for the tangible properties, the following amounts:

Land	\$	1,000.00
Utility distribution equipment		27,089.26
Propane storage tanks		18,677.67
Transportation equipment		13,760.52
Shop equipment		1,305.38
Furniture and fixtures		613.15
Total	\$	62,445.98
Less-allowance for depreciation		433.12
Balance	\$	62,012.86

Applicant's president has advised the Commission that the \$1,000 assigned to land is an estimate and the current value is about two and one-half times this amount, that the figure claimed for utility distribution equipment is based on construction costs where available and otherwise on estimates of such costs, that the amounts for the propane storage tanks and the transportation equipment represent original costs, and that the shop equipment is included at estimated resale values and the furniture and fixtures at current appraised values. The cost of the franchise is reported at \$461.65.

The reported allowance of \$433.12 for depreciation represents the accrual for the month of April, 1948, which was included by applicant in its operating expenses for that month. No estimate has been presented by it of the total accrued depreciation in the properties prior to April.

Generally speaking, we believe that in determining the amount of stock to be authorized in payment for properties there should be taken into consideration the original cost

of such properties, estimated if not known, and the estimated accrued depreciation. Although applicant has not submitted such a depreciation estimate, the Commission does have before it the financial reports filed by its predecessor Knapp since the inception of the operations in 1939, which reports, along with applicant's April, 1948, statement, show the net increases in property accounts and the net increase in the reserve for depreciation, which had been accumulated in prior years by appropriations from earnings, except as otherwise stated, as follows:

<u>Year</u>	<u>Property</u>	<u>Reserve</u>
1939	\$7,747.88	\$ 339.28
1940	2,311.42	629.96
1941	1,267.05	629.96
1942	954.86	629.96
1943	392.63	629.96
1944	3,254.14	847.46
1945	2,294.36	1,197.86
1946	2,371.24	1,307.50
1947	32,623.16	4,605.25
1948 (To April 30)	<u>9,229.24</u>	<u>1,732.48 (2)</u>
Total	<u>\$62,445.98</u>	<u>\$12,549.67</u>

For the purpose of this proceeding we will accept the \$62,445.98 included by applicant in its financial statement of April 30, 1948, for the tangible properties and will take into consideration an allowance for depreciation against such properties as set forth in the preceding tabulation. As to the intangible capital we will accept the reported cost of \$461.65. In rejecting the appraised value of \$2,000, claimed for this item we wish to point out to applicant that under the terms of the Public Utilities Act the Commission has no power to authorize the capitalization of any franchise or permit whatsoever or the right to own, operate or enjoy any such franchise or permit, in excess of the amount (exclusive of any tax or annual charge)

(2) This amount represents an allowance for four months at the rate of \$433.12 a month, being the amount claimed by applicant for April, 1948.

actually paid to the State or to a political subdivision thereof as the consideration for the grant of such franchise, permit or right. Incidental expenses actually incurred in obtaining such a franchise may be considered as organization expenses chargeable to fixed capital.

Upon this basis, then, and taking into account the other assets and liabilities, as of April 30, 1948, as reported by applicant, the equity capital, which we believe to be a proper basis in considering an order authorizing the issue of stock, is \$45,260.80 determined as follows:

Assets

Tangible property	\$62,445.98	
Less-allowance for depreciation	<u>12,549.67</u>	
Net tangible capital		\$ 49,896.31
Intangible capital		461.65
Current assets		45,940.71
Deferred charges		<u>3,132.12</u>
Total assets		\$ 99,430.79

Liabilities

	<u>54,169.99</u>
Balance-equity capital	\$ <u>45,260.80</u>

From the foregoing, it does not appear that applicant's assets warrant the issue of stock in the aggregate amount of \$50,000. As stated, applicant heretofore has been authorized to issue, and has issued, \$35,000 of stock in part payment of such assets, leaving a balance of approximately \$10,000 to be considered in connection with the request to issue additional stock.

The order herein, accordingly, will authorize applicant to issue \$10,000 par value of stock in addition to that authorized by Decision No. 41350. The action taken herein shall not be

construed to be a finding by the Commission of the value of applicant's properties or of the reasonableness of its charges for depreciation expense. Such matter may be considered anew by the Commission if they become issues in any future proceeding. At this time we believe that until otherwise hereafter ordered or directed by the Commission, applicant should record on its books for its property and reserve accounts, as of April 30, 1948, the figures set forth in this supplemental opinion in arriving at the equity capital used as the basis for the order herein.

FIRST SUPPLEMENTAL ORDER

The Public Utilities Commission having given further consideration to this application and being of the opinion that it should authorize Garberville Gas Corp. to issue \$10,000 par value of stock in addition to that heretofore authorized by Decision No. 41350, that the money, property or labor to be procured or paid for through the issue of said \$10,000 of stock is reasonably required by Garberville Gas Corp. for the purpose specified herein, and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED as follows:

1. Garberville Gas Corp., after the effective date hereof and on or before October 31, 1948, may issue not exceeding \$10,000 par value of its common stock, in addition to the \$25,000 par value of such stock authorized by Decision No. 41350, in part payment of the properties and assets acquired from Kenneth E. Knapp.

2. Garberville Gas Corp. shall file with the Commission a report of the issue of such stock as required by the Commission's General Order No. 24-A, which order, insofar as applicable, is

made a part of this order.

3. The request to issue \$5,000 of stock is hereby denied without prejudice.

4. This order is effective twenty days from the date hereof.

Dated at San Francisco, California, this _____

17th day of August, 1948.

R. E. Anderson
James F. Garner
Robert J. Gentry
Harold P. Hull
Samuel L. Lott
Commissioners