

ORIGINAL

Decision No. 43377

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

APPLICATION OF SAN GORGONIO ELECTRIC CORPORATION FOR AN ORDER AUTHORIZING IT TO SELL ALL ITS POWER PLANTS, SYSTEM AND PROPERTIES: AND APPLICATION OF CALIFORNIA ELECTRIC POWER COMPANY FOR AN ORDER AUTHORIZING IT TO ACQUIRE THE SAME AND TO ISSUE STOCK IN PAYMENT THEREFOR.

Application No. 30472

H. M. Hammack and Howard Boylan, Riverside, California, for applicant, California Electric Power Company; O'Melveny and Myers, by Grant L. Sterling and Frederick N. Edwards, for applicant, San Gorgonio Electric Corporation.

O P I N I O N

San Gorgonio Electric Corporation and California Electric Power Company join in this application for an order authorizing the former to sell and the latter to purchase the electric power plants and transmission lines, the hydraulic diversion works and water ways, and associated property of the former. San Gorgonio requests authority, concurrent with the transfer of the property, to abandon public utility service and to acquire stock of California Electric in payment for said property. California Electric requests authority to acquire the property and to issue, exempt from the competitive bidding rule, 17,614 shares of its common stock which it will deliver to San Gorgonio.

The plants and other property of San Gorgonio were originally constructed or acquired by San Gorgonio Power Company, a predecessor of applicant San Gorgonio, following its organization in 1922, and were placed in operation about January 16, 1924. The tangible property consists of diversion works on branches of the Whitewater River in San Bernardino County; a canal connecting to the forebay of Plant No. 1

which contains one hydroelectric generating unit rated at 1500 kw; a second canal leading from the tailrace of Plant No. 1 to Plant No. 2 which, in turn, contains one hydroelectric generating unit rated at 750 kw; and an equalizing tank at the outflow of the tailrace of Plant No. 2. The hydroelectric plants are located in San Gorgonio Canyon about ten miles north of the City of Banning, Riverside County, California. The plants and appurtenant properties were leased to Southern Sierras Power Company (now California Electric Power Company) for a period of 30 years from May 1, 1922, and have been operated by the lessee since their construction. The lease is of record before this Commission in Application No. 8310. Authority for its execution was granted by Decision No. 11432, dated December 29, 1922. San Gorgonio does not supply electric utility service directly to any customer.

Pursuant to the authority heretofore granted by the Commission, San Gorgonio issued 2,527 shares of preferred stock and 2,790 shares of common stock, all without par value, in financing the cost of its properties. From time to time, it invited tenders of preferred shares, purchasing the lowest price stock offered. Some common shares have been donated or purchased and cancelled. As a result of this policy, the outstanding securities on August 25, 1949, consisted of 788 preferred shares and 2,503 common shares.

California Electric made an offer on September 21, 1948, to purchase the properties for 15,000 shares of its common stock. An agreement was reached at 17,614 shares which, based on an agreed price of \$7.25 per share, amounted to a consideration of \$127,701.50. A witness for applicant California Electric stated that the current market price of California Electric's common stock was \$7.25 on August 25, 1949, the date of hearing in this matter. A witness for San Gorgonio stated that it proposed to dissolve upon consummation of

the proposed transfer. A plan for dissolution, under which San Gorgonio would distribute to its stockholders 16 shares of California Electric common stock for each preferred share, and two shares of California Electric common stock for each common share of San Gorgonio, has been presented to the stockholders. Shareholders of over 90% of each class of stock outstanding have approved the sale, and no objections have been presented by any stockholder.

California Electric has submitted, as Exhibit C attached to the application and as Exhibit 1 at the hearing, copies of a financial statement showing its balance sheet as of April 30, 1949, with proposed adjustments to record the effect as of that date of the purchase of the properties of San Gorgonio Electric Corporation. It proposes to enter in its utility plant account the total undepreciated plant account of the San Gorgonio, amounting to approximately \$518,400, and to credit to its reserve for depreciation the sum of \$213,700. The difference between the net investment in plant and the purchase price, amounting to \$177,000, it proposes to credit to Account No. 100.5, Electric Plant Acquisition Adjustment. Thereafter, it proposes to accrue depreciation under its regular rates for the entire book balances of plant acquired from San Gorgonio and to offset these depreciation accruals by amortizing the \$177,000 credit balance in the acquisition adjustment account in 15 equal annual installments amounting to \$11,800 by credits to depreciation expense. It requests permission from this Commission for treatment of the transaction in accordance with the above-described procedure. The manner in which the acquisition of the San Gorgonio properties may be recorded on the California Electric books will be considered in a supplemental order.

A witness for California Electric stated that under 25-year average energy production, it would have earned \$6,439 more net income if it had owned and operated the plants during the same period than it would have earned under the lease.

Energy production by the plants has varied widely. The lowest annual production was about 2,500,000 kwhr in 1925, while the greatest was about 11,400,000 kwhr in 1937. The 25-year average production was 5,345,000 kwhr.

A hearing was held in this matter on August 25, 1949, before Examiner Knerr, at which no one appeared to protest any of the proposals contained in the application, although notice of hearing was published and also was mailed to each shareholder of record of San Geronio. A witness for San Geronio stated that, in the event the transfer described herein is not consummated, San Geronio has no plans for operation beyond May 1, 1952, the termination date of the existing lease agreement with California Electric. He stated that experience so far this year indicates a loss of approximately \$25,000 for the year 1949 in the operations of San Geronio.

Although ownership of the San Geronio plants has not proved to be profitable for the present owners, it appears that integration and operation of the properties with those of California Electric under the conditions of the proposed transaction will result in improvement of California Electric's net revenues under average conditions. It appears, therefore, that the transfer of properties and the issue of stock should be authorized, the same being found not to be adverse to the public interest.

The action taken herein shall not be construed to be a finding of the value of the properties herein authorized to be transferred. The issue of the stock herein authorized is not subject to the provisions of the Commission's competitive bidding rule.

O R D E R

The above-entitled application having been filed with this Commission, a public hearing having been held, and the matter having been submitted for decision,

IT IS HEREBY ORDERED as follows:

1. San Geronio Electric Corporation may, on or after the effective date hereof, but on or before December 31, 1949, sell and transfer the herein described public utility properties to California Electric Power Company, pursuant to the agreement of sale and purchase embodied in said application.
2. California Electric Power Company is hereby authorized to acquire said properties and to issue and deliver to San Geronio Electric Corporation 17,614 shares of California Electric Power Company common stock, it being the opinion of the Commission that the money, property or labor to be procured or paid for through the issue of said shares is reasonably required for the purpose stated herein and that such purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.
3. San Geronio Electric Corporation is hereby authorized to acquire said common stock of California Electric Power Company and to abandon public utility service concurrently with the transfer of the properties.
4. Within thirty (30) days after the transfer of the properties, California Electric Power Company shall file with this Commission a copy of the bill of sale under which it acquired title to said properties and shall notify this Commission of the date of transfer. It shall file also, a report of the issue of said stock as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at Los Angeles, California, this 17th day of October, 1949.

R. Z. [Signature]
Justice F. [Signature]
August P. [Signature]
[Signature]
Commissioners