

Decision No. 50724**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
 VALLEJO ELECTRIC LIGHT AND POWER)
 COMPANY and PACIFIC GAS AND ELECTRIC)
 COMPANY for an order authorizing)
 Vallejo Company to transfer all of)
 its properties to Pacific Company;)
 authorizing Pacific Company to assume)
 and discharge all liabilities and)
 obligations of Vallejo Company;)
 authorizing Pacific Company to record)
 said transfer and to file and make)
 effective electric tariff schedules)
 as herein requested.)

Application No. 34412
 (Amended)

Robert H. Gerdes, R. W. DuVal and F. T. Searls by
R. W. DuVal, and O'Hara, Randall, Castagnetto &
 Kilpatrick by Russell O'Hara, for applicants.
Alfred Wanger, City Manager, for City of Vallejo,
 and Melvin L. Dykes, for Vallejo Chamber of
 Commerce, interested parties.
T. E. P. Woods, for East Vallejo Improvement
 Association, Inc., and C. Melvin Ellis &
J. R. McKean, for Vista De Vallejo Improvement
 Association, protestants.
Boris H. Lakusta, John F. Donovan and Charles W.
Mors, for the Commission staff.

O P I N I O NNature of Proceeding

Vallejo Electric Light and Power Company^{1/} and Pacific Gas
 and Electric Company^{2/} California corporations, by the above-entitled
 application filed June 2, 1953, and the amended application filed
 June 11, 1954, seek an order of this Commission authorizing (1) the
 conveyance of all the properties and assets of Vallejo to Pacific,
 (2) dissolution of Vallejo and relieving it of its duties and

^{1/} Hereinafter sometimes referred to as Vallejo.

^{2/} Hereinafter sometimes referred to as Pacific.

functions as a public utility, and (3) increasing electric service rates throughout the territory presently served by Vallejo.

Public Hearings

After due notice to the public and parties at interest, public hearings were held before Commissioner Justus F. Craemer and Examiner F. Everett Emerson in the City of Vallejo on July 8, July 9 and September 15, 1954.

Evidence Respecting Merger

Vallejo Electric Light and Power Company was organized June 1, 1897 and since that date has distributed and sold electric energy within and adjacent to the City of Vallejo. Its supply of electric energy, since 1912, has been obtained by purchases from Pacific at subtransmission or distribution voltages.

Pacific Gas and Electric Company, organized October 11, 1905, is the largest public utility operating entirely within the State of California. It furnishes gas, electric, steam heat and water service with its over-all service area containing or extending into 46 of the state's 58 counties. As its corporate name implies, it is primarily engaged in supplying gas and electric service. Pacific owns all of the authorized and outstanding capital stock of Vallejo (except the director's qualifying shares which are held in trust), consisting of 60,000 shares of common stock of the par value of \$10 each, acquisition of which has been authorized by this Commission.^{3/} It has been exercising a supervisory control over and has been aiding and assisting in the management and operation of Vallejo's properties and business affairs for several years. Pacific's electric service area embraces the territory immediately adjacent to that of Vallejo and additionally Pacific serves some 30 electric customers interspersed in Vallejo's territory. For a

^{3/} Decision No. 21695, issued October 19, 1929 and Decision No. 43591, issued December 7, 1949 in Application No. 15974..

number of years Pacific has supplied gas service in the area within which Vallejo supplies electric service.

Pacific's proposal to cause the winding up and dissolution of Vallejo is in conformity with its long-established policy of simplifying its corporate structure by means of the elimination of its subsidiary public utility corporations.

By reason of its superior financial position and greater material resources Pacific is in a position to meet, promptly and effectively, the demands and requirements of both present and prospective industrial, commercial and domestic customers in the expanding economy and physical growth now obtaining in Vallejo's present service area.

By appropriate resolutions of their respective boards of directors, Vallejo and Pacific have duly authorized their management officers to dissolve and wind up the affairs of Vallejo and to integrate Vallejo's system and properties with those of Pacific. Copies of executed documents pertaining thereto together with copies of instruments proposed to be executed are contained in Exhibit No. 3 in this proceeding. Those instruments yet to be executed concern (1) an indenture granting the property of Vallejo to Pacific, (2) an assignment of current assets to Pacific and (3) an assumption by Pacific of the liabilities of Vallejo.

Pacific proposes to record the acquisition of the properties of Vallejo by entries in Pacific's books of accounts as of April 30, 1954 by the journal entries set forth in Exhibit E attached to the amended application. Debit and credit items thereof will be adjusted, as of the date of acquisition, by net additions and betterments and net additions to the depreciation reserve, together with adjustments to the "Electric Plant Acquisition Adjustment" account, reflecting any reduction or increase in the

earned surplus account of Vallejo to the date of actual acquisition. The effect of the proposed recording, as of April 30, 1954, on the assets of Pacific as disclosed by the balance sheet contained in Exhibit No. 4 in this proceeding, is summarized as follows:

<u>Assets</u>	April 30, 1954		
	<u>Before Transaction</u>	<u>Adjustments To Record Transaction</u>	<u>After Transaction</u>
Gross Utility Plant	\$1,910,307,429	\$2,498,031	\$1,912,805,460
Acquis. Adjustments	15,544,051	277,276	15,821,327
Reserves	361,256,904*	980,462*	362,237,366*
Net Utility Plant	1,564,594,576	1,794,845	1,566,389,421
Invest. & Fund Accts.	20,482,314	1,619,897*	18,862,417
Current & Accrued Assets	84,588,561	55,902	84,644,463
Deferred Debits	11,188,181	96*	11,188,085
Capital Stock Discount and Expense	10,771,838	-	10,771,838
Reacquired Long-Term Debt	1,865,000	-	1,865,000
Total	\$1,693,490,470	\$ 230,754	\$1,693,721,224

* Denotes inverse item.

With respect to the future handling of the proposed charges to Account 100.5, Amortization of Acquisition Adjustment, counsel for Pacific stated:

"Pacific ... stipulates that as respects the amount finally lodged in Account 100.5, as a result of the transfer of properties here involved, Pacific will not, in any future rate proceeding involving its Electric Department claim any part of said sum as includible in the rate base; nor will it request as an operating expense item, allowance to amortize said sum.

"Whatever the amount of said charge to Account 100.5 shall be, it will, in accordance with the provisions of Account 100.5 of the Commission's uniform System of Accounts for Electrical Corporations, quoting the language of the classification, be depreciated, amortized, or otherwise disposed of, as the Commission may approve or direct."

With respect to the disposition of the proposed charge to Account 100.5, Acquisition Adjustment, we are of the opinion that the amount resulting from the acquisition of the Vallejo properties should be transferred to Account 146, Other Deferred Debits, and

thereafter amortized by charges to Account 537, Miscellaneous Amortization, over a period of not exceeding five years starting with the year 1955. As an alternative, Pacific Gas and Electric Company may charge the amount forthwith to its Earned Surplus Account.

Evidence Respecting Rates

The rates and charges for electric service which Pacific proposes to apply in the present territory of Vallejo are higher than those charged by Vallejo but lower than those charged in comparable areas elsewhere on Pacific's system. As a matter of rate history, Pacific has been granted two electric rate increases in recent years.^{4/} Vallejo has not increased its rates during the same period. In this proceeding Pacific's basic proposal is to raise the electric rates in the Vallejo area, by an average of 18.5 per cent, to a level which would return them to the same percentage differential, below Pacific's rates in other areas, which existed prior to the last increase in Pacific's rates. Pacific, in this proceeding, is not seeking a full return on a rate base applicable solely to the Vallejo area.

Applicant's showing respecting results of operation of Vallejo under present and proposed rates is contained in Exhibit No. 5 in this proceeding. The showing is summarized as follows:

Results of Operations
(Based Upon Full Year 1953)

Item	Present Rates		Proposed Rates
	1953 Recorded	1953 Adjusted	1953 Adjusted
Operating Revenues	\$1,021,587	\$1,021,600	\$1,210,300
Operating Expenses	955,313	1,063,900	1,122,100
Net Revenue	66,274	(42,300)	88,200
Rate Base (Depreciated)	1,537,218	1,823,600	1,823,600
Rate of Return	4.31%	Loss	4.84%

(Red Figure)

^{4/} Amounting, overall, to approximately 6 per cent in 1950 and 20 per cent in 1952.

Basically the "adjusted" year 1953 figures represent the indicated results had Pacific completely provided the service furnished by Vallejo in that year. Primarily the differences between "recorded" and "adjusted" arise in power costs and rate base. In the first instance Vallejo's costs have included neither operating and maintenance expenses nor fixed capital charges for production and transmission of energy. It is clear from the evidence that had all the costs of generating and transmitting electric energy to Vallejo been assigned to Vallejo based upon a reasonable allocation of such costs on a Pacific-system-wide basis, Vallejo in 1953 would have had a total cost of power approximately \$219,400 greater than its payment to Pacific for purchased power. In the second instance, the "adjusted" rate base contemplates consolidated operations and the resulting crediting of Vallejo's depreciation reserve, supplemental reserve and reserve for defense plant accelerated write-off to Pacific's electric department depreciation reserve. The impact of such treatment, the record shows, would not perceptibly change the present remaining life annuity rates of Pacific. Such "folding-in" of these reserves with the resultant increased rate base shown in the above tabulation appears to be reasonable.

Position of Protestants

Representatives of improvement associations and of the Chamber of Commerce presented no evidence in this proceeding but confined their participation to the making of statements of position. They severally urged that the boundaries of the area now served by Vallejo be extended to include all those contiguous areas of Pacific which may be urban in character. One urged that if electric rates are to be increased at all, an average should be struck whereby nearby urban areas on Pacific's system would have

their rates reduced to the level of Vallejo's rates. Another urged that merging of the two utilities not be authorized on the general grounds that a going concern should not be dissolved.

With respect to these statements of position we point out that this proceeding does not involve any question concerning the propriety of the rates now charged by Pacific in its own service area nor is there involved any question concerning proper rate zones or rezoning in Pacific's area. Such questions are outside the scope of this proceeding. We have here only the determination of whether the requested consolidation of the two utilities is adverse to the public interest and the setting of just and reasonable rates for the existing territory as supplied by the surviving utility.

Conclusions

In view of the entire evidence and after consideration of the positions of all parties at interest we find that the proposed dissolution of Vallejo Electric Light and Power Company and the transfer of the properties and utility operations thereof to Pacific Gas and Electric Company is not adverse to the public interest. We further find that the rates for electric service proposed to be charged by Pacific Gas and Electric Company within the Vallejo Rate Area, as said area is set forth in Exhibit No. 7 in this proceeding, are fair and reasonable and that the increases in rates and charges resulting from the application of said rates are justified.

The action taken herein shall not be construed to be a finding of the value of the properties herein authorized to be transferred.

Authorized Rates

The electric rates hereinafter authorized will produce, on the basis of the level of business during the test year 1953, an increase of approximately \$188,650 in gross revenues annually. A comparison of authorized with existing rates, by revenues derivable by rate schedules, is as follows:

<u>Schedule No.</u>		<u>Average</u> <u>Customers</u>	<u>Present</u> <u>Revenues</u>	<u>Authorized</u> <u>Revenues</u>	<u>Per Cent</u> <u>Increase</u>
<u>Old</u>	<u>New</u>				
D1	D20	12,451	\$439,362	\$541,137	23.2%
L1	L20	1,785	388,048	441,619	13.8
P1	P20	294	77,629	87,510	12.7
H	H20	32	3,909	4,602	17.7
C	C20	4	67,213	80,643	20.0
L2-13	LS20-LS21	3	44,154	53,454	21.1
		<u>14,569</u>	<u>\$1,020,315</u>	<u>\$1,208,965</u>	<u>18.5%</u>

O R D E R

Vallejo Electric Light and Power Company and Pacific Gas and Electric Company having applied to this Commission for authority to convey all of the properties and assets of Vallejo to Pacific, dissolve Vallejo and relieve it of its duties and obligations as a public utility, to make effective Pacific's electric rules and regulations and to increase electric rates in the service area to be absorbed by Pacific; public hearings thereon having been held, the matter having been submitted and now being ready for decision; and

Based upon the evidence of record and findings relative thereto,

IT IS HEREBY ORDERED as follows:

1. Vallejo Electric Light and Power Company may convey and transfer after the effective date hereof and on or before January 1, 1955 to Pacific Gas and Electric Company all of its properties and other assets, such conveyance to be made pursuant to the documents contained in Exhibit No. 3 in this proceeding.

2. Pacific Gas and Electric Company may acquire after the effective date hereof said properties and other assets of Vallejo Electric Light and Power Company, assume all the obligations and liabilities thereof and render public utility electric service in the area now served by Vallejo Electric Light and Power Company.

3. Concurrently with the conveyance hereinabove authorized Vallejo Electric Light and Power Company may discontinue rendering electric utility service, withdraw its tariffs and stand relieved of its public utility obligations and Pacific Gas and Electric Company shall file a notice of adoption of the electric rates, rules and regulations presently filed with this Commission by Vallejo Electric Light and Power Company, said rates, rules and regulations to be effective during the interim period between the date of Vallejo's withdrawal and January 1, 1955.

4. Pacific Gas and Electric Company is authorized to file in quadruplicate with this Commission, after the effective date of this order and in conformity with the provisions of General Order No. 96, the schedules of electric rates and charges set forth in Exhibit F attached to the application and, after not less than five days' notice to the public and to this Commission, to make said rates and its rules and regulations effective for service rendered in the Vallejo Rate Area on and after January 1, 1955.

5. Pacific Gas and Electric Company shall record the hereinabove authorized transfer and conveyance upon its books substantially in the manner set forth in Exhibit E attached to the amended application herein and, within sixty days after the

consummation of said transfer and conveyance, shall by supplemental application herein seek approval of the journal entries by which such recordation is accomplished.

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

Dated at San Francisco, California, this 3rd day of November, 1954.

John E. Mitchell
President

Matthew D. Cooney

Wm. H. Potts

James Higgins

Ray L. Winter
Commissioners