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Decision No. 13866.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the SOUTHWESTERN HOME TELEPHONE COMPANY, for an order authorizing it to issue its First and Unified Mortgage Gold Bonds (later to be known as "First Mortgage Gold Bonds"), and for an Order authorizing the use and sale of certain Series A bonds for the purpose of refunding the outstanding First Mortgage Bonds heretofore issued by the Company, and for the purpose of likewise refunding the First Mortgage Bonds of the Redlands Home Telephone Company, and for the purpose of discharging and refunding certain other obligations, and also for the purpose of providing funds from time to time in the future necessary to extend and enlarge the business of the company and to pay for necessary extensions and betterments; also for an order authorizing and approving a Trust Indenture to be issued as of the first day of October, A.D. 1924, covering all the properties of the Company in the State of California now owned or hereafter to be acquired in its business.

Application
Number
10260

Charles F. Potter, for Applicant.

BY THE COMMISSION:

OPINION

Southwestern Home Telephone Company asks permission to execute a mortgage or deed of trust substantially in the same form as that filed in this proceeding and marked "Exhibit C", and to issue \$340,000.00 of bonds under such mortgage or deed of trust to refund indebtedness.

The Commission has on several occasions commented on the improper and excessive capitalization of the properties of the Southwestern Home Telephone Company (Decision No. 1296, dated Feb. 24, 1914, Vol. 4, Opinions and Orders of the Railroad Commission of California, page 247; Decision No. 5057, dated Jan. 18, 1918, Vol. 15, Opinions and Orders of the Railroad Commission of California, page 44.)

In Decision Number 9910 (dated Dec. 21, 1921, Vol. 20, Opinions and Orders of the Railroad Commission, of California, page 1053) the Commission fixed applicant's rates. For the purpose of that proceeding the Commission's engineering department estimated the historical cost of the company's properties at \$392,148.00, while the company submitted figures amounting to \$511,496.51. The net cost of additions and betterments since then is reported by the company in this proceeding at \$27,042.73 which, added to the Commission's engineering department figures, makes a total of \$419,190.73; or a total of \$531,539.29, if the \$27,042.73 is added to the company's figures. In the rate decision the Commission made no definite finding as to the estimated historical cost of the company's properties, but comments on the difference between the figures submitted.

For the past three years the Southwestern Home Telephone Company reports earnings, expenses and disbursements as follows:-

ITEM	1923	1922	1921
Operating revenue	\$135,796.51	\$126,434.03	\$115,446.50
Operating expenses	97,256.73	88,287.47	77,435.87
Net operating revenue	38,539.78	38,146.56	38,010.63
Uncollectible revenues	686.88	293.08	214.55
Taxes assignable to oper'n	8,527.61	8,223.15	8,697.01
Deductions from net revenue	9,527.61	8,516.20	8,911.56
Operating income	29,012.17	29,630.36	29,099.07
ADD			
Nonoperating income	998.79	175.00m	310.80
Gross income	30,010.96	29,805.36	29,409.87
DEDUCTIONS:			
Rent for lease of plant	5,000.00*	5,230.55*	431.40
Rent for offices	1,755.00	1,728.00	1,199.00
Rent for poles, etc.	839.90	827.90	783.90
Miscellaneous rent	-	-	150.00
Interest on funded debt	18,738.39	18,230.04	22,745.81*
Other interest	3,579.00	3,788.87	4,099.76
Total deductions	29,912.29	29,805.36	29,409.87
Net income	98.67	-	-

*Includes \$5,000 interest on Redlands Home Tel. & Tel. Co. bonds.

In this proceeding applicant reports its assets and liabilities as of March 31, 1924 as follows:-

A S S E T S

Intangible capital	\$ 80,186.10
Land and buildings	19,259.03
Central office equipment	35,321.84
Station equipment	52,113.20
Exchange pole lines	166,834.41
Exchange aerial cable	49,934.48
Exchange aerial wire	98,373.42
Exchange underground conduit	4,319.47
Exchange underground cable	11,384.22
General equipment	18,350.44
Undistributed construction expenditures and interest during construction	37,798.21
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Total investment in fixed capital...	\$573,874.82
Cash and deposits	7,233.57
Bills receivable	6,649.83
Due from subscribers and agents	4,539.01
Miscellaneous accounts receivable	2,234.51
Materials and supplies	19,296.27
Sinking fund assets	5,196.18
Prepayments	4,086.25
Unamortised debt discount and expense	80,976.02
Other suspense	7,348.96
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TOTAL.....	<u>\$711,435.42</u>

L I A B I L I T I E S

Capital stock outstanding	\$ 84,234.50
Redlands Home bonds	100,000.00
Southwestern Home Telephone bonds	322,500.00
Deferred interest certificates	48,375.00
Bills payable	50,500.00
Audited vouchers and wages unpaid	14,039.29
Miscellaneous accounts payable	1,824.46
Service billed in advance	3,227.99
Taxes accrued	4,929.47
Other accrued liabilities not due	19,277.33
Reserve for accrued depreciation	66,844.09
Other deferred credit items	234.09
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	715,686.22
Corporate deficit	<u>4,250.80</u>
TOTAL	<u>\$711,435.42</u>

Of the Redlands Home Telephone and Telegraph Company bonds, \$3500.00 are in applicant's treasury, leaving \$96,500.00 outstanding in the hands of the public. The total bonds, notes and deferred interest certificates aggregate \$517,875.00. In addition, \$177,500.00 of applicant's bonds are pledged as collateral.

An analysis of the company's income account for 1923 shows that approximately 71 percent. of the company's income was used to pay operating expenses; 6.5 percent. to pay taxes; and 22 percent. to pay interest and rent.

The following shows the purposes for which the company expended its 1923 income:-

Total income \$136,794.00

DISBURSEMENTS:

<u>ITEM</u>	<u>Amount</u>	<u>Percent.</u>
a. OPERATING EXPENSES:		
Maintenance excluding depreciation	\$18,755.00	13.71
Depreciation	14,193.00	10.37
Traffic	30,164.00	22.05
Commercial	10,209.00	7.46
General and miscellaneous;	23,933.00	17.49
Total operating expenses	97,256.00	71.09
b. TAXES	8,840.00	6.46
c. INTEREST	22,317.00	16.31
d. RENT	7,594.00	5.55
Total Interest and rent	29,911.00	21.86

The general and miscellaneous expenses include \$13,920.00 for general office salaries, such salaries representing 10.17 percent. of the company's total income.

The Commission is asked to authorize the issue of \$340,000. of six percent. bonds to refund indebtedness of the Southwestern Home Telephone Company and the outstanding bonds of the Redlands Home Telephone and Telegraph Company, all of whose stock is owned by the Southwestern Home Telephone Company. There are reported as outstanding \$322,500.00 of Southwestern Home Telephone Company bonds and \$48,375.00 of deferred interest certificates applicable to such bonds. The com-

pany has asked the owners of the Southwestern Home Telephone Company bonds to exchange such bonds and deferred interest certificates on the basis of \$1,000.00 of Southwestern Home Telephone Company bonds for \$650.00 face value of bonds to be issued under the new mortgage of the company. It is of record that the holders of more than 80 percent. of the bonds have agreed to the exchange. No definite arrangements have been made for the refunding of the \$96,500.00 of outstanding Redlands Home Telephone and Telegraph Company bonds, or the \$50,500.00 of outstanding notes of the Southwestern Home Telephone Company. To refund a part of such notes, bonds in the amount of \$33,875.00 are to be reserved. The delivery of bonds to refund the notes and the Redlands Home Telephone and Telegraph Company bonds, will be authorized in a supplemental order or orders in this proceeding.

The Commission is asked to authorize the Southwestern Home Telephone Company to execute a mortgage or deed of trust in substantially the same form as the mortgage or deed of trust filed in this proceeding as Exhibit "C". The initial series of bonds is to be limited to \$1,000,000.00; Such bonds are to be known as "Series A"; **to bear six percent. interest;** to be dated October 1, 1924; and to mature October 1, 1954. The proposed mortgage which has been submitted, we believe, should be modified in several respects. First, there should be eliminated from such mortgage, as well as from the form of the bond, the provision whereby the holders of bonds waive their rights to proceed against stockholders, directors, or officers of the company by virtue of any constitution, statute, provision or rule of law or equity, judicial proceedings, adjudication, assessment, penalty or deduction, representation or otherwise, for the payment of the principal and interest of the bonds. It is further believed that the sinking fund provisions should be modified so that the company will be required to pay to the trustee on September 1, 1928 and annually thereafter,

an amount equal to one and one half percent. of the bonds then outstanding. The company should reserve the right to make such payments either in cash or in bonds issued under the mortgage, which bonds the trustee is to accept at their par value. All moneys paid to the trustee should be used for the purpose of redeeming bonds issued under the mortgage. The sinking fund payments should not be made dependent upon the net earnings of the company. The company should also reserve to itself the right to redeem on and after September 1, 1928, and up to and including September 1, 1934, all or any part of the bonds issued under the mortgage, at 105 percent. of the par value thereof and accrued interest; and after September 1, 1934 at one fourth of one percent. less each year.

Under the financial plan outlined in this proceeding \$322,500. of Southwestern Home Telephone Company five percent. bonds and \$48,375. of deferred interest certificates will be exchanged for \$209,625.00 of six percent. bonds. Adding to this amount the \$96,500.00 of Redlands Home Telephone and Telegraph Company bonds and the \$50,500.00 of notes payable, makes a total debt of \$355,625.00, against an estimated cost of the properties varying from \$419,190.73 to \$531,539.29, as shown on page two of this decision. Under the set-up, the annual interest charge will be reduced from \$24,100.00 to \$19,552.50; a reduction of \$4,547.50. It is for the purpose of bringing about a further reduction of the bonded debt on the properties operated by applicant, that a sinking fund such as outlined herein, should be put into effect.

ORDER

Southwestern Home Telephone Company, having applied to the Railroad Commission for permission to execute a mortgage or deed of trust and to issue under such mortgage or deed of trust \$340,000.00 of bonds,

a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion that the money, property or labor to be procured or paid for through the issue of such bonds, is reasonably required by applicant and that the expenditures authorized in this order are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that the Southwestern Home Telephone Company be, and it is hereby, authorized to issue not exceeding \$340,000. of first and unified mortgage six percent. gold bonds due October 1, 1954, such issue being authorized for the following purposes and upon the following conditions:-

1. Upon receiving from the Railroad Commission an order authorizing the execution of a mortgage or deed of trust to secure the payment of the aforesaid bonds, Southwestern Home Telephone Company may deliver not exceeding \$209,625.00 of said bonds in exchange for \$322,500.00 of Southwestern Home Telephone Company five percent. bonds and \$48,375.00 of deferred interest certificates, upon the basis set forth in this application.
2. The remainder of the bonds herein authorized to be issued, namely, \$130,375.00, may be used and delivered by the company only for such purposes as the Railroad Commission will hereafter authorize by supplemental order or orders.

IT IS HEREBY FURTHER ORDERED that the authority herein granted will not become effective until Southwestern Home Telephone Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee amounts to \$310.00; nor until the Commission by supplemental order has authorized the execution of a mortgage or deed of trust securing the payment of the bonds herein authorized to be issued.

IT IS HEREBY FURTHER ORDERED that the Southwestern Home Telephone Company shall keep such record of the issue, sale and delivery of the bonds herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order in so far as applicable, is made a part of this order.

IT IS HEREBY FURTHER ORDERED that no bonds may be issued under the authority granted, subsequent to March 1, 1925.

DATED at San Francisco, California, this 4th day of August, 1924.

Clarence
H. B. Brundage
Dwight Martin
Egerton Shore

Commissioners.

Fee \$310⁰⁰/₁₀₀

Dwight Martin
Commissioner