

Decision No. 14708

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of the
Huntington Beach Telephone Company, joined
by the Smeltzer Home Telephone Company, for
permission to purchase all the assets of
the Smeltzer Telephone Company, fix rates
for service and sell bonds.

Application
No. 10076.

Scarborough, Forge and Reinhaus, by
S. M. Reinhaus, for Applicants.

L. W. Blodgett, City Attorney for the
City of Huntington Beach.

SEAVEY, COMMISSIONER:

O P I N I O N

This is a joint application in which Smeltzer Home Telephone Company asks authority to sell its entire telephone system for a consideration of \$12,000. and the Huntington Beach Telephone Company to acquire this telephone plant and to consolidate the same with its Huntington Beach plant and to operate the combined plants as one system. The Huntington Beach Telephone Company also asks permission to sell \$20,000. of the bonds heretofore authorized to be issued by Decision No. 12495 at 90 per cent of their face value and to use the proceeds to purchase the plant of the Smeltzer Company and to make such rearrangements and improvements as may be found necessary to consolidate the two properties.

A public hearing in this matter was held at Huntington Beach on June 17, 1924.

The Smeltzer Company was incorporated in 1904. This company then established a central office at Smeltzer and built

lines extending into the surrounding territory which at that time was devoted principally to the growing of celery. In 1913 the Smeltzer telephone system rendered service to over 330 subscribers' stations throughout an area of approximately 50 square miles.

Due to changed conditions resulting from the decline of the celery industry, the number of subscribers' stations served by Smeltzer Company has continually decreased since 1913 until at present there are less than 200. As a result the investment in used and useful plant per station in this system as at present operated is abnormally high and certain portions of the plant are no longer operative property.

Service between Huntington Beach and Smeltzer is provided at the present time, as it has been for some time in the past, over two interexchange trunk circuits by which so-called free switching is furnished, there being no charges applicable to calls between the two exchanges. Because of the division of responsibility between the two companies these lines have not been properly maintained, which condition has resulted in inadequate service. If unlimited flat rate service over the areas served by Smeltzer Company and the Huntington Beach Telephone Company is to continue, it is apparent that a satisfactory physical connection between the two must be provided. This may be accomplished either by serving both areas from one central office, as proposed by applicants, or by reconstructing the present interexchange trunk lines and providing for the proper maintenance of same in the future. Under present conditions of the Smeltzer Company, it is doubtful whether that Company would be able to bear its share of the burden which would be imposed by the latter method without seeking relief in form of toll rates to be applied to the use of the interexchange trunks. If the two exchanges are consolidated, the necessity for

intorexchange trunks will be obviated and at the same time a reduction in operating expenses may be effected through the abandonment of the Smeltzer central office. The location of the territory served by Smeltzer Company, which territory practically surrounds the area served by the Huntington Beach Telephone Company, is also favorable to the consolidation plan.

If permission to consolidate the two properties is granted as requested, the Huntington Beach Telephone Company has suggested that magneto telephone service only, be furnished in the territory now served by the Smeltzer Company. The Huntington Beach telephone plant is at present operated as a common battery system and the common battery type of service is offered for all grades of service, except ten-party suburban service. Giving due consideration to the size of the territory to be served and modern telephone practice in exchanges of comparable size, it does not appear to be unreasonable to require the Huntington Beach Telephone Company to offer common battery service throughout the combined areas to all grades of service except ten-party suburban service. This will allow a subscriber outside the Huntington Beach Primary Rate Area to select at his option either common battery or magneto service. The order following will so provide.

Exhibits were filed by applicants purporting to show an inventory of the telephone properties of the Smeltzer Company and proposed changes in completing the unification of the properties. No appraisal of this property was presented by applicants. Applicants did, however, present book costs, together with an estimate of cost of plant to be constructed and book values of plant to be retired.

Applicants' exhibits have been checked by this Commission's Engineering Department. This work included a review of the plan of the Huntington Beach Telephone Company for serving the Smeltzer

Company's subscribers from Huntington Beach and an inspection of a portion of the Smeltzer plant in the field to determine its present condition. From the results of this investigation and inspection I find that the proposed purchase price of \$12,000. is not an unreasonable amount to be paid for the property.

The gradual decrease in the business of the Smeltzer Company during the past several years has resulted in a certain portion of the plant becoming now no longer used and useful. Making an allowance for this and using the Engineering Department's estimates for plant to be removed and new construction work necessary, the determination of the estimated historical reproduction cost undepreciated of the plant in the present Smeltzer Company territory is as follows:

Historical Reproduction Cost Undepreciated as of November 1, 1919, less M. & S. (Decision No. 7310 17 CRC 964)	\$23,223.
Plus Net Changes, November 1, 1919, to December 31, 1923. (Smeltzer Company's Annual Reports)	1,522.
Less Plant to be removed	2,905.
Less Plant not used and useful	2,579.
Plus plant to be constructed under proposed plan	<u>16,389.</u>
Plant as of January 1, 1924, under proposed plan, less M. & S.	\$35,650.

Under applicants' proposed rates it is estimated that the total annual revenue of the combined plants will amount to \$38,700. while the estimated annual expenses, including depreciation annuity, taxes and uncollectibles, total \$28,000.'

It is evident that, if the Smeltzer and Huntington Beach Telephone plants are combined and the consolidated system operated from one central office, the rate of any one class or grade of service rendered under similar conditions should be uniform throughout the territory served, with the possible exception of the business area of the Town of Westminster. Applicants' proposed rates are not, in all cases, uniform and will provide for a different rate for the same service at present effective throughout the Huntington

Beach territory. The Town of Westminster presents a peculiar condition which is not found elsewhere in the territory outside of the City of Huntington Beach. The Town of Westminster is a small congested business district and due to the lower costs of serving, would be entitled to a lower rate than will apply in the surrounding territory. In the rate schedules recommended in the order following, a special rate area for Westminster and a special four-party business service rate applicable in this area is provided.

By Decision No. 12495, dated August 17, 1923, in Application No. 8869, the Commission authorized Huntington Beach Telephone Company to execute a mortgage and to issue and sell at ninety percent of face value plus accrued interest, \$50,000. of first mortgage six per cent serial bonds. The order of the Commission permitted the company to use \$50,000. of the proceeds from the sale of such bonds to finance the cost of acquiring real estate, erecting a new office building and installing new equipment, but provided that the remainder of the proceeds may be expended only for such purposes as the Commission would subsequently authorize.

The Company has reported that pursuant to the authority granted by the Commission, it has issued and sold at ninety, \$30,000. of bonds, receiving in cash the sum of \$27,000. which it has used to pay for extensions, additions and betterments prior to February 28, 1924. It now asks permission in this proceeding to sell the remaining \$20,000. of bonds authorized by Decision No. 12495 at not less than ninety per cent of their face value, and to use \$12,000. of the proceeds to pay for the properties of Smeltzer Home Telephone Company and \$6,000. to pay for extensions, additions and betterments.

It appears that it is the proposal of applicants to transfer the properties of Smeltzer Home Telephone Company to Huntington Beach Telephone Company, free and clear of indebtedness excepting miscellaneous current accounts payable. As I have heretofore stated,

based on the investigation and inspection by the Commission's Engineers, I am of the opinion that the proposed purchase price of \$12,000. is not an unreasonable amount to be paid for the properties, and the order herein will authorize the transfer at that price.

Under the proposed plan of consolidation of the two telephone systems involved in this application, it is thought that it will be necessary to expend \$16,389. for new construction and for re-building of lines acquired from Smeltzer Home Telephone Company, as outlined herein above. It is to finance in part the cost of these estimated expenditures that the remaining \$6,000. to be obtained from the sale of bonds, will be used.

Huntington Beach Telephone Company proposes to reconstruct a considerable portion of the telephone plant in the present Smeltzer Company territory, if permitted to consolidate the properties. It appears that such reconstruction is necessary if satisfactory service is to be rendered to patrons in the present Smeltzer Company territory and that a major portion of such reconstruction work should be completed before the rates set forth in Exhibit 1, attached hereto, are made effective.

The order following will provide that the rates should not become effective until the issuance of a supplemental order after Huntington Beach Telephone Company has satisfied this Commission that the necessary reconstruction work has been completed.

I herewith submit the following form of order:

O R D E R

The Huntington Beach Telephone Company and the Smeltzer Home Telephone Company, having applied to the Railroad Commission for an order authorizing the Smeltzer Home Telephone Company to sell to the Huntington Beach Telephone Company all of its telephone property located in the vicinity of Smeltzer, Westminster and Huntington Beach, in Orange County, California, the Huntington

Beach Telephone Company to purchase and acquire the same, to engage in the telephone business in the territory now served by the telephone system of the Smeltzer Home Telephone Company, and the Huntington Beach Telephone Company to sell bonds; a public hearing having been held and the matter having been submitted and now ready for decision,

The Railroad Commission of the State of California hereby finds as a fact that the consolidation of the property of the Smeltzer Home Telephone Company and the Huntington Beach Telephone Company will be to the interest of the property of both companies and of the public and that such consolidation should be allowed, and that the rates now in effect are unjust and unreasonable insofar as they differ from the rates hereinafter set out in the order following.

Basing its order on the foregoing findings of fact and on such other findings and statements of fact as are set forth in the opinion preceding this order,

IT IS HEREBY ORDERED that the Smeltzer Home Telephone Company be and it is hereby authorized to sell and transfer to the Huntington Beach Telephone Company, for the sum of \$12,000., the property more specifically described in Exhibit "D", attached to and made a part of the application in this proceeding; and

IT IS HEREBY FURTHER ORDERED that the Smeltzer Home Telephone Company be and it is hereby authorized to suspend and abandon all public utility operation from and after the date of transfer of its telephone properties to the purchasing company, and

IT IS HEREBY FURTHER ORDERED that the Huntington Beach Telephone Company be and it is hereby authorized to engage in the telephone business in the territory heretofore served by the Smeltzer Home Telephone Company.

The authority herein contained is granted upon the following conditions and not otherwise:

(1) Any transfer made hereunder shall be made on or before May 1st, 1925.

(2) Huntington Beach Telephone Company shall file a certified copy of the instrument of conveyance with the Railroad Commission within thirty (30) days after the date on which it is executed.

(3) The consideration at which the public utility properties are herein authorized to be transferred shall not be considered as a measure of the value of said properties for any purpose other than the transfer herein authorized.

IT IS HEREBY FURTHER ORDERED that Huntington Beach Telephone Company shall charge and collect:

1. The rates as set forth in Exhibit No. 1 attached hereto for suburban service furnished throughout the entire suburban area and for four-party business service furnished in the Westminster Rate Area, after showing to this Commission that Huntington Beach Telephone Company has properly rebuilt its telephone plant to render adequate service and upon supplemental order from this Commission.

2. The rates now in effect in the Huntington Beach Exchange Area for all telephone service other than that referred to under Section 1 above.

IT IS HEREBY FURTHER ORDERED that Huntington Beach Telephone Company, pending the issuance of the supplemental order referred to in Section (1) above, shall charge and collect within that area now served by the Smeltzer Telephone Company the rates now in effect for the Smeltzer Telephone Company.

IT IS HEREBY FURTHER ORDERED that the order in Decision No. 12495, dated August 17, 1923, be, and it is hereby, modified so as to permit Huntington Beach Telephone Company to issue and sell \$20,000. of the bonds authorized therein at not less than ninety per

cent of their face value, plus accrued interest on or before December 31, 1925, and to use \$12,000. of the proceeds to be received to pay for the properties of Smeltzer Home Telephone Company, herein authorized to be transferred, and \$6,000. to finance in part the cost of the extensions, additions and betterments to which reference is made in the foregoing opinion.

IT IS HEREBY FURTHER ORDERED that the order in Decision No. 12495, dated August 17, 1923, as amended, shall remain in full force and effect, except as modified by this Order.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 27th day of March, 1925.

H. H. Brundage
C. Leary
Egerton Shore
George D. Squires
Ernest Scott

Commissioners

EXHIBIT NO. 1.

Exchange Service -- Schedule No. A-2.

Four-Party Line Service, Westminster.

Applicable to four-party line magneto service furnished in the Westminster Rate Area.

<u>Rate:</u>	<u>Rate Per Station Per Month</u>	
	Wall Set	Desk Set
Four Party Line	\$3.50	\$3.75

Conditions:

(1) The above rates are applicable to four-party line magneto service, either business or residence, furnished in the Westminster Rate Area only; for rates for four-party line magneto service outside the Westminster Rate Area but within the suburban area or for four-party line common battery service at any point in the suburban area see Schedules Nos. A-1 and A-4.

(2) A discount of \$0.25 is allowed on the rate for four-party line service in the Westminster Rate Area if payment is made on or before the tenth day of the current month.

Exchange Service -- Schedule No. A-5.

Suburban Service:

Applicable to magneto suburban party line service furnished in the Suburban Area.

Rate:

	<u>Rate Per Month Per Station</u>			
	<u>Business Service</u>		<u>Residence Service</u>	
	<u>Wall Set</u>	<u>Desk Set</u>	<u>Wall Set</u>	<u>Desk Set</u>
Suburban Service	\$3.50	\$3.75	\$2.50	\$2.75

Conditions:

(1) Suburban service is furnished outside the Primary Rate Area but within the Exchange Area. In no case will the total number of stations connected to one circuit exceed ten (10) stations.

(2) A discount of .0.25 is allowed on rate for suburban service if payment is made on or before the tenth day of the current month.

Description of Boundary of Westminster Rate Area

Beginning at the intersection of a line due east and west and 350 feet north of the southern boundary of Sec. 2, T. 5 S., R. 11 W. with a line parallel to and 200 feet west of the center line of Elm (Golden West) Street, Westminster; thence due east along a line 350 feet north of the southern boundary of Sec. 2, T. 5 S., R. 11 W. to the point of intersection with a line parallel to and 200 feet east of the center line of Oak Street, Westminster; thence in a southerly direction along a line parallel to and 200 feet east of the center line of Oak Street, to the point of intersection with a line due east and west and 230 feet south of the southern boundary of Sec. 2, T. 5 S., R. 11 W.; thence due west along a line 230 feet south of the southern boundary of Sec. 2, T. 5 S., R. 11 W. to the point of intersection with a line parallel to and 200 feet west of the center line of Elm (Golden West) Street; thence in a northerly direction along a line parallel to and 200 feet west of the center line of Elm (Golden West) Street to the point of beginning.