

ORIGINAL

Decision No. 17641

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 CALIFORNIA TELEPHONE AND LIGHT COMPANY,)
 a corporation, and SACRAMENTO VALLEY)
 TELEPHONE COMPANY, a corporation, for)
 an order of the Railroad Commission of)
 the State of California authorizing the)
 former to sell and convey and the latter)
 to purchase and acquire the properties)
 referred to in this petition; of)
 SACRAMENTO VALLEY TELEPHONE COMPANY for)
 authorization to execute and deliver a)
 promissory note in the face amount of)
 \$100,000.00; and of THE PACIFIC)
 TELEPHONE AND TELEGRAPH COMPANY, a)
 corporation, for authorization to en-)
 dorse and become the guarantor of said)
 promissory note to be executed by)
 SACRAMENTO VALLEY TELEPHONE COMPANY.)

Application No. 13271

C. P. Cutten, for California Telephone
 and Light Company.

J. T. Shaw, for Sacramento Valley Telephone
 Company and The Pacific Telephone
 and Telegraph Company.

BY THE COMMISSION:

O P I N I O N

In the above entitled matter the Railroad Commission is
 asked to make an order:-

1. Authorizing California Telephone and Light Company,
 hereinafter sometimes mentioned as California
 Company, to grant, sell and convey for
 \$400,000. to Sacramento Valley Telephone
 Company, hereinafter sometimes mentioned as
 Sacramento Company, all of its properties

- used in the conduct of its telephone and telegraph business, and authorizing Sacramento Company to purchase and acquire such properties;
2. Authorizing California Company, upon transfer of its properties to Sacramento Company, to cease furnishing and supplying telephone service in the territory in which it now operates;
 3. Authorizing Sacramento Company to execute its promissory note to California Company in the principal amount of \$100,000. payable two years after date, without interest, in part consideration for the transfer of the properties; and
 4. Authorizing The Pacific Telephone and Telegraph Company to endorse and become the guarantor of said promissory note.

The record shows that California Company is engaged in the business of generating, transmitting, distributing, selling, buying and dealing generally in electricity for light, heat and power, and also in the business of conducting, controlling and operating a telephone and telegraph system, its properties being located in portions of Sonoma, Mendocino, Napa and Lake Counties. It appears that the company desires to withdraw from the telephone business and to devote its efforts exclusively to the conduct of the business of an electrical corporation and for this reason has entered into an agreement to sell all of its telephone properties. In this connection it might be added that California Company is controlled through stock ownership by Pacific Gas and Electric Company, which company owns about ninety-nine percent of its outstanding stock.

The revenues and expenses of the telephone business of the selling corporation have been reported to the Commission in the company's annual reports, and for the calendar years 1923, 1924 and 1925 have been as follows:

	1925	1924	1923
Operating revenues	\$109,163.98	\$100,666.48	\$95,496.44
Operating expenses	79,808.36	85,244.41	75,294.68
Net Operating Revenues	<u>29,355.62</u>	<u>15,422.07</u>	<u>20,201.76</u>
Uncollectible revenues	715.44	776.74	
Taxes	6,528.51	5,900.06	5,737.80
Deductions from net operating revenues	<u>7,243.95</u>	<u>6,676.80</u>	<u>5,737.80</u>
Operating income	<u>\$22,111.67</u>	<u>8,745.27</u>	<u>14,463.96</u>
Non-operating income:			
Miscellaneous rent revenue	-	\$375.10	-
Dividend revenues	6.91	7.34	-
Interest revenues	309.92	152.44	-
Misc. non-operating revenues	-	.49	379.76
Total Non-operating revenues	<u>316.83</u>	<u>535.37</u>	<u>379.76</u>
Gross Income	<u>\$22,428.50</u>	<u>\$9,280.64</u>	<u>\$14,843.72</u>

The property to be sold consists, in general, of exchange, toll and farmer line telephone plants and systems; lands, buildings, easements and rights-of-way upon and in which the same are maintained; and all of the telephone franchises, business and good-will, including the company's telephone exchanges at Calistoga, Healdsburg, Guerneville, Lakeport, Sonoma, Middletown and Potter Valley, the land and buildings at Calistoga and Healdsburg, upon and in which the Calistoga and Healdsburg exchanges are situate, and the suburban telephone lines and property out of Cloverdale, Geyserville, Santa Rosa and Sebastopol, and all materials and supplies on hand for use exclusively in the telephone business. A valuation of the physical properties, made by engineers of the purchasing company, was filed in the proceeding, as Exhibit "1", and shows the estimated reproduction cost, as of September 30, 1925, at \$488,366.96, the estimated condition percent at 76.7, and the "appraised structural value"

at \$374,574. To this latter figure additions and betterments of \$1,410.00, made during the period from October 1, 1925 to December 31, 1925, are added, bringing the appraised structural value, as of December 31, 1925, up to \$375,984.

A copy of the agreement between California Company and Sacramento Company is filed with the application as Exhibit "A". The instrument is dated September 23, 1926, and provides for a total payment for the properties of \$400,000.00, based upon the value of such properties on January 1, 1926, plus, or minus, an amount equal to the value of net additions to, or deductions from, the properties between January 1, 1926 and the date of delivery of the deed of conveyance. Of the proposed purchase price, \$300,000. is payable in cash upon the delivery of the deed of conveyance, subject to adjustment for additions to, or deductions from, the properties subsequent to January 1, 1926, and \$100,000. by a promissory note payable two years after date of issue, without interest, and guaranteed by The Pacific Telephone and Telegraph Company.

Sacramento Company, the purchasing company, is engaged in the general telephone business in the counties of Glenn and Tehama, a portion of its territory being contiguous to that served by California Company. The company is controlled through stock ownership by The Pacific Telephone and Telegraph Company which is reported to own in excess of ninety-eight percent of its outstanding stock. The Pacific Telephone and Telegraph Company will advance to Sacramento Company the \$300,000. needed to make the cash payment under the agreement with California Company, and has agreed, and asks permission, to guarantee the note to be issued by Sacramento Company to complete the transaction.

The balance sheet of Sacramento Company shows its assets and liabilities, as of August 31, 1926, as follows:-

ASSETS:

Fixed capital	\$474,752.83
Cash and deposits	2,599.77
Accounts receivable	10,905.77
Materials and supplies.	4,637.58
Prepayments	2,269.98
Other deferred debits	118.44
Total Assets.	<u>\$495,284.37</u>

LIABILITIES:

Capital stock	\$193,800.00
Funded debt	190,000.00
Advances from system corporations	257,000.00
Bills payable.	99,000.00
Accounts payable.	63,243.82
Accrued liabilities not due	12,053.21
Reserve for accrued depreciation.	2,285.55
Reserve for amortization of intangible capital.	496.00
Loss from operation since December 31, 1925	35,163.66
Deficit	287,430.55
Total Liabilities.	<u>\$495,284.37</u>

We have given consideration to this application and are of the opinion that public convenience and necessity will be served better by the transfer of the telephone properties to, and the operation thereafter by, a corporation engaged solely in the telephone business. In passing on the application, however, we have considered the proposed purchase price of \$400,000. only as the consideration agreed upon by the two parties to the transaction and in authorizing the transfer of the properties at that price we are not to be understood as making a finding of value of such properties to be used as the basis for an order fixing rates or permitting the issue of securities or for any purpose other than this transaction. Although permitting the sale of the properties upon the terms indicated in the agreement of September 26, 1926, the Commission reserves the right to determine, in this or in any subsequent proceeding, the amount of the purchase price that may be charged to capital accounts. It is of record that

the purchaser does not contemplate any change at this time in the rates, rules and regulations of California Company.

ORDER

Application having been made to the Railroad Commission, as indicated in the foregoing opinion, a public hearing having been held before Examiner Fankhauser, and the Railroad Commission being of the opinion that the application should be granted as herein provided and that the money, property or labor to be procured or paid for through the issue of the \$100,000. note is reasonably required by Sacramento Valley Telephone Company, one of the applicants herein, for the purpose specified herein, and that the expenditure of the \$100,000. is not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED as follows:-

1. California Telephone and Light Company may sell and convey to Sacramento Valley Telephone Company the properties described in the agreement, dated September 23, 1926, a copy of which is attached to the application herein as Exhibit "A", and Sacramento Valley Telephone Company may purchase and acquire such properties, such sale and purchase to be in accordance with and under the terms and conditions of said agreement.
2. California Telephone and Light Company may, upon the transfer of its properties to Sacramento Valley Telephone Company, as herein permitted, cease

furnishing and supplying telephone and telegraph service in the territory in which it now furnishes such service, provided that Sacramento Valley Telephone Company undertakes the furnishing of such service upon acquisition of the properties.

3. Sacramento Valley Telephone Company may execute in favor of California Telephone and Light Company its promissory note in the principal amount of \$100,000.00, payable two years after date of issue, without interest, to pay in part the cost of the properties herein authorized to be transferred.
4. The Pacific Telephone and Telegraph Company may endorse and become the guarantor of the \$100,000. note which Sacramento Valley Telephone Company is herein authorized to issue.

The authority herein granted is subject to the following conditions:-

- (a) The consideration being paid for the properties herein authorized to be transferred shall not be urged as a measure of value of said properties for the purpose of fixing rates, issuing securities or any purpose other than this transfer.
- (b) Sacramento Valley Telephone Company within thirty (30) days after the acquisition of said properties shall file with the Commission a certified copy of the deed or

bill of sale or other instrument of conveyance under which it acquires title to said properties.

(c) Sacramento Valley Telephone Company shall keep such record of the issue of the note herein authorized as will enable it to file, within thirty (30) days thereafter, a verified report, as required by the Railroad Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

(d) The authority herein granted Sacramento Valley Telephone Company to issue a note will become effective when Sacramento Valley Telephone Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is One Hundred (\$100.) Dollars. In other respects the authority herein granted will become effective twenty (20) days after the date hereof.

DATED at San Francisco, California, this 18th day of November, 1926.

Lee B. ...
RAILROAD COMMISSION
STATE OF CALIFORNIA
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A. M. ...
Fest 33531

H. R. ...
C. S. ...
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Commissioners.