

LBM

Decision No. 29714

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 NEVADA, CALIFORNIA AND OREGON)
 TELEGRAPH AND TELEPHONE COMPANY)
 (a corporation) for authority to)
 transfer its telephone properties)
 and business to Public Utilities)
 California Corporation, and for)
 authority of Public Utilities Cal-)
 ifornia Corporation to acquire said)
 telephone properties and business)
 and to issue in consideration thereof)
 shares of its common capital stock)
 of the aggregate par value of)
 \$375,000.00.)

Application No. 14952

Orrick, Palmer and Dahlquist, by Hillyer Brown,
for applicants.

BY THE COMMISSION:

O P I N I O N

Applicants in this proceeding ask the Railroad Commission to enter its order authorizing the Nevada, California and Oregon Telegraph and Telephone Company, hereinafter sometimes referred to as the Telephone Company, to transfer its properties, franchises and business to the Public Utilities California Corporation, and permitting the latter to acquire the properties, franchises and business of the former. Applicants further ask the Commission to authorize the Public Utilities California Corporation to issue and deliver to the Nevada, California and Oregon Telegraph and Telephone Company, or its nominees, \$375,000.00 par value of its common capital stock and to assume and agree to pay all of the liabilities and obligations of said Nevada, California and Oregon Telegraph and Telephone Company at the date of the transfer of the properties.

The Nevada, California and Oregon Telegraph and Telephone Company was incorporated in 1910 under and by virtue of the laws of Nevada. In 1914, pursuant to the authority granted in Decision No. 12062, dated February 7, 1914 (Vol. 4, Opinions and Orders of the Railroad Commission, page 168) it acquired the properties of the California and Oregon Telegraph Company and the properties of the California Northern Telephone and Telegraph Company. In 1928 it acquired the properties operated under the name of the Bass Telephone Lines (Decision No. 20046, dated July 16, 1928).

The Telephone Company today furnishes exchange telephone service, toll telephone service and telegraph service. The major portion of the company's exchange property is located in Susanville and Alturas. It is reported that the Susanville exchange consists of a manually operated, common battery, two position Federal switchboard, connected with the exchange aerial wire through a small amount of underground cable and a considerable amount of aerial cable. There are 674 stations with three private branch exchanges, two intercommunicating systems, approximately 309 poles and 46 miles of exchange aerial wire in this exchange. The Alturas exchange consists of a manually operated, common battery, two position Kellogg switchboard, connected with the exchange aerial wire through a very considerable amount of aerial cable. There are 211 stations with approximately 427 poles and 27 miles of wire in this exchange. In addition to the above exchanges, the company has exchange areas at Greenville, Crescent Mills, Keddie, Doyle, Ravendale and Fort Bidwell. Small switchboards are located at Cedarville, Constantia, Chester, Mineral, Taylorsville and Montgomery Creek, and switching apparatus is provided at many of the toll stations so that connections may be made with Forest Service and farmers' lines.

The toll system of the Telephone Company connects with the toll lines of The Pacific Telephone and Telegraph Company at five different points, namely; Reno, Nevada, Quincy, Red Bluff and Redding, California, and Lakeview, Oregon.

The company owns 15,000 poles and approximately 1300 miles of wire which are used for toll purposes. Practically all through, toll circuits are full metallic, and over 67 percent of all toll wire is copper. The telegraph apparatus is operated by the company over its telephone lines from Reno, Nevada, through Alturas to Lakeview, Oregon, also over its lines to Red Bluff. Connections are made with the Western Union Telegraph Company's system at Reno, Nevada, and at Red Bluff, California. All other telegraph business is transacted by telephone.

The operating revenues of the Telephone Company for 1926 are reported at \$76,726.55, of which \$55,260.17 was obtained from "message tolls". For 1927 the operating revenues are reported at \$85,503.38, of which \$62,012.85 was obtained from "message tolls". Figures for the calendar year 1928 are not yet available. Applicants in Exhibit No. 3 report the operating revenue for the year ending August 31, 1928 at \$92,342.62. This exhibit does not segregate the revenue between toll and exchange business. The above figures do not include the revenues of the Bass Telephone Lines.

The income available for interest, dividends or surplus is, in Exhibit No. 3, reported at \$27,767.85. The testimony of F. J. Keyes, manager of the Public Utilities California Corporation, who presented Exhibit No. 3, is so general that one cannot determine with any degree of accuracy whether his estimate of net income is correct.

Applicants have filed a valuation (Exhibit C) of the properties of the Telephone Company including the Bass Telephone Lines, prepared by The Loveland Engineers, Inc. They submit an estimate of the reproduction cost new, reproduction cost new depreciated, and the original cost of the properties, as of June 30, 1927, and have summarized their estimates as follows:-

| I T E M S | :Reproduction: :Cost New | :Reproduction: :Cost Depre- :ciated | :Estimated :Original : Cost |
|---|-----------------------------|---|-----------------------------------|
| <u>INTANGIBLES:</u> | | | |
| Organization and preliminary expense | \$ 12,000. | \$ 12,000. | \$ 12,000. |
| Cost of acquiring franchises: | 4,500. | 4,063. | 4,500. |
| Going concern | 38,000. | 38,000. | 38,000. |
| Operating rights and agreements: | | | |
| Nevada-California-Oregon Ry: | 38,750. | 38,444. | 38,750. |
| Fort Bidwell-Willow Ranch | | | |
| Lead Rights | 1,000. | 1,000. | 1,000. |
| Rights on poles of Pacific Gas and Electric Company | 15,000. | 15,000. | 15,000. |
| Total intangibles..... | \$ 109,250. | \$ 108,507. | \$ 109,250. |
| <u>TANGIBLES:</u> | | | |
| Physical properties of: | | | |
| Nevada, California and Oregon Telegraph and Telephone Company | \$ 292,211. | \$ 241,583. | \$ 246,146. |
| Bass Telephone Lines | 27,654. | 24,958. | 23,954. |
| Total tangibles..... | \$ 319,865. | \$ 266,541. | \$ 270,100. |
| GRAND TOTAL..... | \$ 429,115. | \$ 375,048. | \$ 379,350. |

The valuation division of the Commission's engineering department has examined the report submitted by The Loveland Engineers, Inc. and estimates the historical cost of the properties undepreciated at \$270,172.00 and the historical cost depreciated at \$220,517.00, segregated as follows:-

| ITEM OF PROPERTY | Estimated | |
|------------------------------------|---------------|---------------|
| | Historical | Cost |
| | Undepreciated | Depreciated |
| <u>INTANGIBLE CAPITAL:</u> | | |
| Organization | \$ 3,000.00 | \$ 3,000.00 |
| Franchises | 1,443.00 | 925.00 |
| Going concern | - | - |
| Operating rights: | | |
| Nevada-California-Oregon Railway | 5,000.00 | 5,000.00 |
| Fort Bidwell-Willow Ranch Lead | | |
| Rights | 1,000.00 | 1,000.00 |
| Rights on poles of Pacific Gas | | |
| and Electric Company | 5,000.00 | 5,000.00 |
| Total intangible..... | \$ 15,443.00 | \$ 14,925.00 |
| Physical properties including Bass | | |
| Lines | 254,735.00 | 205,592.00 |
| Total..... | \$ 270,178.00 | \$ 220,517.00 |

There is a substantial difference between the two valuations. Upon analysis it will appear, however, that the principal difference arises from the assignment of different values to the alleged intangible items of property. The suggestion that the Telephone Company or its predecessors in interest have expended for organization, preliminary expenses and franchises \$16,500.00, the same amount that might be expended today, were the properties built new, does not seem reasonable. We will allow for such purposes \$5,000.00. The Commission in other decisions involving the refinancing of properties acquired by Public Utilities California Corporation has refused to recognize an alleged going concern value as a basis for the issue of securities. The evidence submitted in this proceeding does not warrant the Commission to find that any going concern value attaches to the property.

To certain operating rights and agreements The Loveland Engineers, Inc. have assigned a value of \$54,750.00, and the Commission's engineers a value of \$11,000.00. These figures cover three agreements; one with the Nevada-California-Oregon Railway, one with the Mt. Shasta Power Corporation, controlled through stock ownership by the Pacific Gas and Electric Company, and one giving the Telephone Company certain rights on the Fort Bidwell-Willow Ranch telephone line. No copy of the last named agreement has been filed with the

Commission. The other two agreements were filed subsequent to the hearing had on this application. They grant to the Telephone Company certain privileges and impose upon it certain obligations. It appears to us that the values assigned to these agreements, as the record now stands, bear no relation to the obligations imposed upon the Telephone Company or to the privileges granted to it. From the record one cannot determine whether the agreements are an asset or a liability, and we cannot, therefore, place any value on the same. If applicants desire to submit additional evidence relative to the value of the agreements, we will, if notified within thirty days ^{after} the date hereof, set this matter down for further hearing.

In its annual report for the year ending December 31, 1927, the Nevada, California and Oregon Telegraph and Telephone Company reports its assets and liabilities as follows:-

| <u>A S S E T S</u> | |
|--|---------------------|
| Fixed capital installed since December 31, 1912 | \$289,482.67 |
| Cash and deposits | 12,817.53 |
| Employees' working funds | 716.36 |
| Due from subscribers and agents | 10,040.33 |
| Miscellaneous accounts receivable | 133.95 |
| Materials and supplies | 5,038.26 |
| Unmatured interest, dividends and rents receivable | 95.67 |
| Deferred debit items: | |
| Prepayments | 243.86 |
| Unamortized debt discount and expense | 8,290.90 |
| Total assets | <u>\$326,859.53</u> |

| <u>L I A B I L I T I E S</u> | |
|---|---------------------|
| Capital stock | \$ 57,359.00 |
| Funded debt | 109,000.00 |
| Audited vouchers and wages unpaid | 948.63 |
| Subscribers' deposits | 158.25 |
| Miscellaneous accounts payable | 492.33 |
| Matured interest, dividends and rents unpaid | 2.40 |
| Service billed in advance | 822.03 |
| Taxes accrued | 1,361.13 |
| Other accrued liabilities not due | 2,173.00 |
| Reserve for accrued depreciation | 67,088.44 |
| Reserve for amortization of intangible capital-Cr | 7,137.69 |
| Surplus invested since December 31, 1912 in fixed capital | 2,785.29 |
| Surplus invested in sinking funds | 13,971.67 |
| Other surplus reserved | 9,462.90 |
| Corporate surplus unappropriated | 55,091.77 |
| Total liabilities | <u>\$326,859.53</u> |

In Exhibit "A" attached to the petition herein, the assets of the Nevada, California and Oregon Telegraph and Telephone Company as of June 30, 1928 are reported at \$481,059.53. The fixed capital account was increased from \$289,482.67 on December 31, 1927 to \$480,217.82 on June 30, 1928. From the evidence it appears that the company revised its balance sheet to reflect the valuation of its properties by The Loveland Engineers, Inc. This was done without any authorization from the Railroad Commission, and in our opinion is not in conformity with the Uniform System of Accounts prescribed for telephone companies by this Commission. The order herein will require the Telephone Company to re-enter on its books the values appearing therein before The Loveland Engineers, Inc. appraisal was recorded. If the properties of the Telephone Company are eventually transferred to the Public Utilities California Corporation, that company must record the same at a figure not in excess of the amount of stock authorized herein plus the accrued depreciation.

Under the terms of an agreement dated July 20, 1927 W. B. Foshay Company acquired the stock of the Nevada, California and Oregon Telegraph and Telephone Company. The Commission is informed that they paid \$245,354.34 for the stock and that the company's bonds have been retired at a cost of \$115,956.92, making a total of \$361,311.62. In addition it is reported that the legal, advertising and appraisal expenses were more than \$15,000.00.

We have considered the evidence submitted in this proceeding and believe that the transfer of the properties of the Nevada, California and Oregon Telegraph and Telephone Company to the Public Utilities California Corporation should be authorized. We find that the historical cost new of the properties, exclusive of any value

assigned to the three operating agreements referred to above as of June 30, 1928 to be \$259,735.00 and the historical cost less depreciation to be \$210,074.00. The order herein will authorize the Public Utilities California Corporation to issue \$210,100.00 of stock in payment for the properties. If the Commission hereafter finds any value that should be assigned to the three operating agreements it will authorize the issue of additional stock. If Public Utilities California Corporation acquires the properties it may charge to its fixed capital accounts as of June 30, 1928 not more than \$259,735.00, offset by \$210,100.00 of stock and \$49,635.00 of accrued depreciation. If it pays for the properties and business of the Telephone Company more than the par value of the stock herein authorized to be issued it must charge the excess to its surplus account or to a suspense account and amortize the same by charges to its surplus account within ten years after the date of this order.

The Public Utilities California Corporation asks permission to assume and agree to pay all of the liabilities and obligations of the Nevada, California and Oregon Telegraph and Telephone Company at the date of the transfer of the properties. The Telephone Company's balance sheet as of June 30, 1928 shows current liabilities of \$18,655.02 and accrued liabilities of \$1,807.77. There is nothing in the record to show the amount of the liabilities of the Telephone Company at this date. Before granting the purchaser permission to assume all of the liabilities and obligations of the Telephone Company as part consideration for the properties, we believe that the Commission should be furnished with a recent balance sheet of the Telephone Company showing the amount of the current

assets and liabilities of such company.

ORDER

Application having been made to the Railroad Commission for an order authorizing Nevada, California and Oregon Telegraph and Telephone Company to transfer its properties and business to the Public Utilities California Corporation and ^{authorizing the latter} to issue \$375,000.00 of stock, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the transfer of the properties should be authorized and that the Public Utilities California Corporation should be permitted to issue in payment for such properties not more than \$210,100.00 of its common capital stock and that the issue of such stock is reasonably required for the purpose herein specified, which purpose is not in whole or in part reasonably chargeable to operating expense or to income, therefore,

IT IS HEREBY ORDERED AS FOLLOWS:-

1. Nevada, California and Oregon Telegraph and Telephone Company may sell on or before March 1, 1929 its properties, franchises and business to the Public Utilities California Corporation, which is hereby authorized to acquire and operate said properties, franchises and business.
2. Public Utilities California Corporation may issue and deliver on or before March 1, 1929, in payment for such properties, not exceeding \$210,100.00 par value of its common capital stock.
3. Public Utilities California Corporation, if it acquires the aforesaid properties and business, may charge to its fixed capital accounts not more than \$259,735.00 plus the actual cost of additions and betterments made after June 30, 1928. If it pays for the properties and business as of June 30, 1928 more than the par

value of the stock herein or hereafter authorized to be issued, it must charge such excess to its surplus account or to a suspense account and amortize the same by charges to its surplus account within ten years after the date of this order.

4. Nevada, California and Oregon Telegraph and Telephone Company shall, within sixty days after the date hereof, revise its accounting records so that they will show the cost of its assets prior to the date on which such accounting records were changed to reflect the appraisal of the company's properties by The Loveland Engineers, Inc.

5. Public Utilities California Corporation shall file with the Commission within sixty days after the execution of the deed or deeds under which it acquires title to the properties of the Nevada, California and Oregon Telegraph and Telephone Company a certified copy thereof; it shall also file a statement showing the exact date on which it took possession of the properties and began to operate them, and a report of the issue of the stock, as required by the Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.

6. The authority herein granted will become effective ten days after the date hereof.

DATED at San Francisco, California, this 24th day of January, 1929.

Thomas S. Lott

A. Seany

Leon Whitall

M. J. [unclear]
Commissioners.