

Decision No. 20718

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ELK GROVE TELEPHONE COMPANY)
(a corporation) to sell the tele-)
phone system and properties)
operated by Elk Grove Telephone)
Company to Public Utilities)
California Corporation (a corpora-)
tion) and for authority of Public)
Utilities California Corporation to)
buy said system and properties and)
to issue shares of its capital)
stock of the par value of \$51,200.)

ORIGINAL

Application No. 15183.

Bradford, Cross & Prior, by Hugh B. Bradford,
for Elk Grove Telephone Company.

Orrick, Palmer & Dahlquist, by E. W. Dahlquist
and Hillyer Brown, for Public Utilities
California Corporation.

BY THE COMMISSION:

OPINION

The Railroad Commission has been asked to make an order authorizing Elk Grove Telephone Company to transfer its business and properties to Public Utilities California Corporation, and authorizing Public Utilities California Corporation to acquire such business and properties and to issue and sell, at par, \$51,200.00 of its common capital stock.

The application shows that Elk Grove Telephone Company is engaged in the business of supplying telephone service to the inhabitants of Elk Grove and vicinity, serving a territory about

210 square miles in extent located immediately south of the City of Sacramento. It appears that the company was organized during 1925 for the purpose of taking over and operating as a public utility the properties then owned and operated by an unincorporated organization known as Elk Grove Mutual Telephone Association. Applicant acquired such properties on May 1, 1926, pursuant to authority granted by the Commission by Decision No. 16248, dated March 18, 1926, and thereafter issued \$23,129.60 of its common capital stock in payment therefor and in payment of extensions, additions and betterments.

In Exhibit 3 the balance sheet of the company as of June 30, 1928, is reported as follows:-

| <u>ASSETS:</u> | |
|-----------------------------|--------------------|
| Fixed capital | \$26,352.03 |
| Current assets. | 813.75 |
| Total Assets | <u>\$27,165.78</u> |
| <u>LIABILITIES:</u> | |
| Capital stock | \$23,129.60 |
| Retirement reserve. | 2,430.00 |
| Surplus | 1,606.18 |
| Total Liabilities | <u>\$27,165.78</u> |

The revenues and expenses are shown as follows:-

| I T E M | Twelve months ending | | |
|----------------------------------|----------------------|------------------|------------------|
| | Dec. 31, 1926 | Dec. 31, 1927 | June 30, 1928 |
| Operating revenues | \$4,532.92 | \$7,221.27 | \$7,752.95 |
| Operating expenses | 4,496.99 | 5,049.57 | 5,101.98 |
| Operating income. | 35.93 | 2,171.70 | 2,650.97 |
| Non-operating revenues | 69.02 | | 110.53 |
| Gross income. | 104.95 | 2,171.70 | 2,761.50 |
| LESS:- Interest. | 192.50 | 592.40 | 296.20 |
| Retirement expense. | 370.00 | 1,175.00 | 1,262.50 |
| Total | 562.50 | 1,767.40 | 1,558.70 |
| Net income. | \$457.55* | \$404.30 | \$1,202.80 |

*Loss in 1926

The record shows that on July 18, 1928, Elk Grove Telephone Company entered into an agreement to sell all its properties, except cash and accounts receivable on date of transfer, free and clear of all liens, encumbrances, debts or liabilities, for \$42,500.00 to W. B. Foshay Company. On October 5, 1928, W. B. Foshay Company entered into an agreement with Public Utilities California Corporation whereby it agreed to cause the properties of Elk Grove Telephone Company to be transferred to Public Utilities California Corporation for \$51,216.00 and to purchase at par \$51,216.00 of the capital stock of Public Utilities California Corporation. The amount stated later, by mutual consent, was changed to \$51,200.00.

In making the application to this Commission for authority to transfer the properties and to issue the stock, applicants estimate the reproduction cost of the lands and physical properties, as of July 31, 1928, at \$53,482.00, and the reproduction cost less depreciation at \$45,599.00. The historical cost is estimated at \$39,275.00 and the historical cost less depreciation at \$34,587.00. In addition a value of \$1,000.00 is estimated for organization and preliminary expense and \$5,000.00 for going concern value. It will be observed that the proposed transfer price and stock issue is approximately equal to the reproduction cost of the lands and physical properties, less accrued depreciation, and the allowances claimed for going concern, organization and preliminary expenses.

E. M. Blakeslee, an assistant engineer of the Railroad Commission, estimates the historical cost of the lands and physical properties, as of June 30, 1928, of Elk Grove Telephone Company at \$35,566.00 and the historical cost less depreciation at

\$31,200.00. These figures include \$500.00 for organization expenses. In arriving at these conclusions he reviewed the record in Application No. 14219 which was a rate proceeding. In its decision (No. 19216, dated January 9, 1928) in that application the Commission used a rate base of \$31,500.00. The company filed no petition for rehearing in the rate proceeding and presumably was satisfied with the Commission's decision. Except for the installation of some additions and betterments the properties to be transferred are the same as those considered in the rate application. To authorize the issue of \$51,200.00 of stock against a property valued at approximately \$35,500.00 for rate purposes results in a gross overcapitalization and jeopardizes the credit of the property. We believe that in this instance the stock issue should not exceed \$31,200.00 which in our opinion represents the estimated original cost (including present value of land) of the properties less depreciation. If the Public Utilities California Corporation acquires the properties of Elk Grove Telephone Company, it may charge to its fixed capital accounts not exceeding \$35,566.00 offset by \$31,200.00 of stock and \$4,366 of accrued depreciation. These figures are as of June 30, 1928. The additions and betterments subsequent to June 30, 1928, may be capitalized through the issue of such stock as the Commission may authorize in a subsequent proceeding.

ORDER

Application having been made to the Railroad Commission for an order authorizing Elk Grove Telephone Company to transfer its properties to Public Utilities California Corporation

and authorizing the latter to issue \$51,200.00 of stock, public hearings 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 issue of \$31,200.00 of stock should be authorized, and that the issue of such stock is reasonably required for the purpose specified herein, which purpose is not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED as follows:-

- (1) Elk Grove Telephone Company may transfer to Public Utilities California Corporation all of its properties and business and may discontinue its public utility service and obligations if, when and as the transfer of its properties and business to Public Utilities California Corporation becomes effective.
- (2) Public Utilities California Corporation may acquire the properties and business of Elk Grove Telephone Company and may issue in payment not exceeding \$31,200.00 of its common capital stock.
- (3) This application insofar as it involves the issue of the remaining \$20,000.00 of stock be, and it hereby is, denied without prejudice.
- (4) The authority herein granted is subject to the following conditions:-
 - (a) Public Utilities California Corporation, if it acquires the aforesaid properties and business, may charge to its fixed capital

