

Decision No. 21054

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 RIO VISTA TELEPHONE & TELEGRAPH COMPANY,
 to sell its telephone and telegraph sys-
 tem to Public Utilities California Corp-
 oration, a corporation, and of Public
 Utilities California Corporation to
 acquire and operate said system and to
 issue sixty thousand three hundred
 eighteen (\$60,318.00) dollars par value
 of its capital stock in connection with
 the acquisition thereof.

ORIGINAL

Application No. 15441

Orrick, Palmer & Dahlquist,
by R. W. Palmer, for applicants.

George West, in propria persona.

BY THE COMMISSION:

O P I N I O N

In the above entitled matter the Railroad Commission is asked to make its order approving the transfer of the properties of Rio Vista Telephone & Telegraph Company to Public Utilities California Corporation, and the acquisition and operation of said properties by Public Utilities California Corporation, and authorizing Public Utilities California Corporation to issue \$60,318.00 of its common capital stock in connection with the acquisition of said properties.

Rio Vista Telephone & Telegraph Company is engaged in the business of supplying telephone service in and about the City of Rio Vista, Solano County. It is reported in Exhibit "A" that its properties include a one section Kellogg single position, two panel switchboard, ultimate capacity 150 magneto lines and one additional homemade section of 50 magneto lines mounted on one side of the standard section. All of the line and cord circuits are fully equipped and in use. The outside exchange plant consists of 120 poles, 11.5 miles of galvanized iron wire and 7,420 feet of cable ranging in size from 25 to 200 pairs. Forty-five of the poles are jointly owned with Great Western Power Company of California and Pacific Gas and Electric Company. The outside toll plant consists of 1,151 poles, 204 miles of galvanized iron wire and 88 miles of copper wire. The company has toll connections with The Pacific Telephone and Telegraph Company and Delta Telephone and Telegraph Company. As of September 30, 1928, the station apparatus was reported at 150 wall telephones, 132 desk telephones, 11 wall extensions and 12 desk extensions; a total of 305.

In annual reports filed with the Commission, Rio Vista Telephone & Telegraph Company has reported its gross operating revenues for 1926 at \$15,379.30, for 1927 at \$16,156.37 and for 1928 at \$16,604.95. After deducting operating expenses, taxes and depreciation, it has reported its operating income for 1926 at \$3,298.86, for 1927 at \$1,976.27 and for 1928 at \$3,013.73.

Its assets and liabilities as of December 31, 1928,

have been reported as follows:-

ASSETS:

Plant and equipment	\$39,601.34
Current assets.	2,518.11
	<hr/>
Total Assets	<u>\$42,119.45</u>

LIABILITIES:

Capital stock.	\$20,750.00
Current liabilities.	10,364.92
Reserve for depreciation	1,507.15
Other credit items	3,810.98
Corporate surplus.	5,686.40
	<hr/>
Total Liabilities	<u>\$42,119.45</u>

The application shows that on February 1, 1929, W. B. Foshay Co., the owner of all of the outstanding stock of Rio Vista Telephone & Telegraph Company, entered into an agreement whereby it agreed to cause the transfer of the properties of Rio Vista Telephone & Telegraph Company (except cash and bills and accounts receivable) to Public Utilities California Corporation, free and clear of indebtedness for \$60,300.00 of common capital stock.

Applicants have filed, as Exhibit "A", a report of an appraisal of the properties of Rio Vista Telephone & Telegraph Company, prepared by The Loveland Engineers, Inc., showing estimates as of September 30, 1928, of the value of such properties as follows:-

Reproduction cost	\$80,377.60
Reproduction cost less depreciation	60,318.00
Historical reproduction cost.	55,672.00
Historical reproduction cost less depreciation	42,888.00

Mr. Joseph Waithman of the Commission's engineering department also submitted a report of an appraisal of the properties in which he estimated the historical reproduction cost as of September 30, 1928 at \$44,161.00 and the historical reproduction cost less depreciation at \$33,414.00.

The Commission has repeatedly held that it would not recognize either the reproduction cost new or the reproduction cost new less depreciation of properties as a basis for the issue of securities. In our opinion the issue of securities should be based on the cost of acquiring and constructing the properties including present value of land. If the properties, as in this instance, are not new, allowance should be made for depreciation. Two estimates of the historical cost of the properties depreciated have been submitted. They are as follows:-

I T E M	BY LOVELAND ENGINEERS INC.	THE MR. WAITHMAN
Physical properties	\$33,888.00	\$31,799.00
Organization and preliminary expense	2,500.00	1,500.00
Franchise	500.00	115.00
Going concern value	6,000.00	-
<u>T O T A L</u>	<u>\$42,888.00</u>	<u>\$33,414.00</u>

Analysis of these estimates of the value of the physical properties shows that differences exist in the allowances for overheads, in the inventories and in the treatment of office furniture and fixtures. The allowances for the intangible items appear to be estimates only, with the exception of the \$115.00 assigned to franchise by Mr. Waithman, which, according to the

testimony herein, represents the amount paid by the company, although it is not clear if this sum includes incidental expenses in connection with the acquisition of the franchise.

We do not regard the alleged going concern value of \$6,000.00 as an item that should be capitalized through the issue of stock. Excluding the \$6,000.00 from the company's engineers' estimate, leaves a total of \$36,888.00 as compared with the Commission's engineers' figure of \$33,414.00. It appears to us that the Commission's engineers' estimate should be increased slightly and after giving full consideration to the record we will authorize the purchasing company to issue not exceeding \$35,000.00 of stock in acquiring these properties.

ORDER

Application having been made to the Railroad Commission for an order authorizing the transfer of properties and the issue of \$60,318.00 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 granted as herein provided, and that the issue of \$35,000.00 of stock is reasonably required for the purpose specified herein, which purpose is not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that:-

- (1) Rio Vista Telephone & Telegraph Company may transfer all of its properties (except

cash and bills and accounts receivable), free and clear of indebtedness, to Public Utilities California Corporation.

- (2) Public Utilities California Corporation may acquire and operate said properties and issue, in payment for such properties, not exceeding \$35,000.00 of its common capital stock.
- (3) This application insofar as it involves the issue of \$25,318.00 of stock is denied without prejudice.
- (4) If Public Utilities California Corporation acquires the properties of Rio Vista Telephone & Telegraph Company, it may charge to its fixed capital accounts not exceeding \$45,747.00. If it pays more than \$35,000.00 for such properties, it must charge such excess to its corporate surplus account.
- (5) The authority herein granted is for the purpose of this proceeding only and is not to be considered as fixing a value for said properties for any purpose other than the transfer and issue of stock herein authorized.
- (6) Public Utilities California Corporation shall file with the Railroad Commission within sixty (60) days after acquiring the properties referred to herein, certified copies of the deed, or deeds, of conveyance, a statement showing the exact date upon which it acquired the properties and

a report, or reports, as required by the Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

- (7) Rio Vista Telephone & Telegraph Company within 60 (sixty) days after transferring its properties, shall file with the Commission, a report covering its operations from January 1, 1929 down to the date of transfer, such report to be prepared on the regular annual report forms prescribed by this Commission.
- (8) The authority herein granted will become effective ten (10) days from the date hereof.

day of May, 1929.

DATED at San Francisco, California, this 7th

John D. Lovitt

Al Seamy

Leon Whitell

M. J. Curran

Commissioners.