

Decision No. 21973

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 EEL RIVER AND SOUTHERN TELEPHONE COMPANY,
 a corporation, to sell its telephone
 system to Public Utilities California
 Corporation, a corporation, and of
 Public Utilities California Corporation
 to acquire and operate said system and
 to issue Thirty Six Thousand Eight Hun-
 dred Dollars (\$36,800.00) per value of
 its capital stock in connection with the
 acquisition of said telephone system.

Application No. 15651.

Orrick, Palmer and Dahlquist, by Hillyer Brown
and Christopher Jenks, for applicant.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked to enter its order approving the transfer of the properties of Eel River and Southern Telephone Company to Public Utilities California Corporation, approving the acquisition and operation of said properties by said Public Utilities California Corporation, and authorizing said Public Utilities California Corporation to issue \$36,800.00 par value of its common capital stock in connection with the acquisition of said properties.

Eel River and Southern Telephone Company was organized in 1910 with an authorized capital stock of \$20,000.00. Stock in the amount of \$10,550.00 is reported as outstanding. It is of record that all the company's outstanding stock is at this time owned by W. B. Foshay Co. The company furnishes continuous telephone service to the City of Ferndale, as well as surrounding suburban and rural territory. The toll telephone and telegraph service is furnished over the lines of The Pacific Telephone and Telegraph Company through

an operating agreement. The central office equipment consists of a two panel Kellogg magneto switch board of 300 line capacity with 150 lines equipped and 140 lines in service. The exchange pole lines in Ferndale consist generally of tapered redwood poles with cross arms, while the suburban lines are mostly with 4" x 6" poles with either cross arms or bracket pins. Practically all circuits consist of bare galvanized wire of No. 12 and No. 14 gauge. The company has 95 business and 417 residence subscribers, making a total of 512. It has 482 wall and 47 desk telephones, 16 extensions and one paystation. Its miles of exchange wire are reported at 323.245.

An appraisal of the properties has been submitted by The Loveland Engineers, Inc. and by the engineering department of the Commission. The Loveland Engineers estimate the reproduction cost new of the properties as of September 30, 1928 at \$57,701.00, and the reproduction cost new less depreciation at \$37,087.00. They estimate the historical reproduction cost of the properties as of September 30, 1928 at \$36,480.00 and the historical cost less depreciation at \$24,707.00. The engineering department of the Commission estimates the historical reproduction cost of the properties as of the same date at \$29,571.00 and the historical reproduction cost new less depreciation at \$17,791.00. The principal element of difference between the two appraisals, as far as the estimated historical reproduction cost of the properties is concerned, appears in the items allowed for intangible capital. The Commission's engineers allow \$275.00 for organization. The Loveland Engineers allow \$1,000.00 for organization and preliminary expense and \$5,000.00 for going concern value. The Commission's engineers submitted no figure to represent the going concern value of this property, if any such value exists. It has been the practice heretofore of the Commission not to recognize any going concern value in proceedings of this nature. There is no evidence

submitted which warrants a departure from the policy heretofore followed by the Commission and we will therefore not recognize any going concern value as being inherent in these properties for the purpose of determining the amount of stock which the Public Utilities California Corporation should be permitted to issue in payment for the properties.

We have considered the evidence submitted in this proceeding and are of the opinion that the Public Utilities California Corporation should be permitted to issue not exceeding \$19,000.00 par value of its common capital stock in payment of the properties which it is herein authorized to acquire. The reports of the engineers clearly indicate that certain parts of the properties have been depreciated to an extent that replacements and reconstruction must be undertaken within the near future. To permit the capitalization of the properties on the basis of historical cost new and later permit the issue of stock to reimburse the company's depreciation reserve in order to enable it to make the replacements would result in an over capitalization of the properties which is unwarranted.

There seems to be some uncertainty about the ownership of some of the telephone lines now being operated by the Eel River and Southern Telephone Company. Originally certain subscribers erected poles and in some cases provided the wire, while the company installed the instruments and operated the circuits. The appraisals submitted cover all the properties which the company is now operating. If it develops hereafter that not all the properties which are included in the appraisals will be transferred to Public Utilities California Corporation, the amount of stock which the company may issue in payment for the properties should be reduced proportionately.

ORDER

Eel River and Southern Telephone Company having asked permission to sell its properties to Public Utilities California

Corporation, and Public Utilities California Corporation having asked permission to acquire such properties and to issue \$36,800.00 par value of its common capital stock in payment for the properties, a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion that the transfer of the properties is in the public interest and that Public Utilities California Corporation should not issue more than \$19,000.00 par value of its common capital stock in payment for such properties, and that the money, property or labor to be procured or paid for by the issue of the \$19,000.00 of stock is reasonably required by applicant, Public Utilities California Corporation, and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application, insofar as it involves the issue of \$17,800.00 of stock should be denied without prejudice, therefore,

IT IS HEREBY ORDERED as follows:-

1. Eel River and Southern Telephone Company may, on or before December 31, 1929, sell and transfer its properties described in this application and more particularly in Exhibit "C" filed in this proceeding, to Public Utilities California Corporation, which is hereby authorized to acquire such properties and operate the same.
2. Public Utilities California Corporation may issue at not less than par on or before December 31, 1929, \$19,000.00 par value of its common capital stock in payment for the aforesaid properties.
3. This application insofar as it involves the issue of \$17,800.00 par value of common capital stock of the Public Utilities California Corporation be, and the same is hereby, denied without prejudice.
4. Public Utilities California Corporation, if it acquires the aforesaid properties, may charge to its fixed capital

accounts an amount not exceeding \$29,571.00. If it pays for said properties more than \$19,000.00 par value of its common capital stock, it must charge the difference between the \$19,000.00 and the price paid, to its corporate surplus account.

5. Within thirty days after the acquisition of the properties of Eel River and Southern Telephone Company, Public Utilities California Corporation shall file with the Railroad Commission a certified copy of the deed by which it acquires and holds title to said properties.

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

7. Public Utilities California Corporation shall, within thirty days after acquiring the aforesaid properties, file with the Railroad Commission for approval, a copy of the bookkeeping entries by means of which it records the purchase of the Eel River and Southern Telephone Company and the distribution of the purchase price to primary accounts, and shall also file with the Railroad Commission reports as required by the Commission's General ^{Order} No. 24, which order, insofar ^{as} applicable, is made a part of this order.

DATED at San Francisco, California, this 18th day of September, 1929.

David L. Loring

Ernest J. ...
Leon ...

M. J. ...
Commissioners.