

ORIGINAL

Decision No. 22333

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SOUTHERN CALIFORNIA TELEPHONE COMPANY,)
a corporation, and The Pacific Telephone)
and Telegraph Company, a corporation,)
for an order authorizing the acquisition)
by Southern California Telephone Company)
from The Pacific Telephone and Telegraph)
Company of the capital stock and bonds)
of Home Telephone and Telegraph Company)
of Pasadena, United States Long Distance)
Telephone and Telegraph Company, Con-)
solidated Utilities Company and Corona)
Home Telephone and Telegraph Company.)

Application No. 16269

In the Matter of the Application of)
SOUTHERN CALIFORNIA TELEPHONE COMPANY)
and The Pacific Telephone and Telegraph)
Company for an order authorizing Southern)
California Telephone Company to issue)
common capital stock of the par value of)
\$50,000,000.00, and authorizing The)
Pacific Telephone and Telegraph Company)
to subscribe for its proportion of said)
capital stock and any portion thereof not)
subscribed for by other stockholders.)

Application No. 16270

In the Matter of the Application of)
THE PACIFIC TELEPHONE AND TELEGRAPH)
COMPANY, HOME TELEPHONE AND TELEGRAPH)
COMPANY OF PASADENA, UNITED STATES LONG)
DISTANCE TELEPHONE AND TELEGRAPH COMPANY,)
CONSOLIDATED UTILITIES COMPANY AND CORONA)
HOME TELEPHONE AND TELEGRAPH COMPANY for)
an order authorizing said companies to)
sell certain property and Southern)
California Telephone Company to acquire)
said property and enter the territory)
involved and assume the obligation of)
rendering telephone service therein.)

Application No. 16271

- Alfred Sutro, by Hugh T. Fullerton, and
- Lawlor and Degan, by Oscar Lawlor, for applicants.
- Thurman Clarke, for the City of Los Angeles.
- Leonard A. Diether, for the City of Pasadena.
- Bernard C. Brennan, for the City of Glendale.
- C. E. Clough, for the City of Bellflower.
- O. R. Cline, for the City of Long Beach.
- Bacigalupi, Elkus and Salinger, for Monrovia Home Telephone Company, Sierra Madre Telephone and Telegraph Company and Southwestern Home Telephone Company.
- A. Wardman, for Whittier Home Telephone and Telegraph Company and Downey Telephone and Telegraph Company.

BY THE COMMISSION:

O P I N I O N

In Application No. 16269, Southern California Telephone Company asks permission to purchase from The Pacific Telephone and Telegraph Company at a cost of \$7,936,395.41, the following securities:

\$7,345,800.00	of the capital stock of Home Telephone and Telegraph Company of Pasadena, and
7,000.00	par value of bonds of Home Telephone and Telegraph Company of Pasadena;
2,500,000.00	par value of common, and
500,000.00	par value of preferred stock of United States Long Distance Telephone and Telegraph Company, and
399,000.00	face value of bonds of said company;
80,590.00	par value of common stock of Consolidated Utilities Company;
42,417.50	of common stock, and
7,700.00	par value of bonds of Corona Home Telephone and Telegraph Company.

In addition, Southern California Telephone Company asks permission to issue its one year note in payment for the purchase price of the securities mentioned.

In Application No. 16270, Southern California Telephone Company asks permission to issue and sell at par \$50,000,000.00 of its common capital stock for the purpose of acquiring the aforementioned securities and the properties to which reference will hereafter be made and to finance the cost of properties which it now owns. In the same application, The Pacific Telephone and Telegraph Company asks permission to acquire the \$50,000,000.00 of common capital stock which Southern California Telephone Company seeks authority to issue.

In Application No. 16271, the Commission is asked to enter its order authorizing The Pacific Telephone and Telegraph Company, Home Telephone and Telegraph Company of Pasadena, United States Long Distance Telephone and Telegraph Company, Consolidated Utilities Company and Corona Home Telephone and Telegraph Company to sell, and

authorizing Southern California Telephone Company to acquire the telephone and telegraph properties set forth in the application and authorizing Southern California Telephone Company to issue its promissory note in payment for the properties of The Pacific Telephone and Telegraph Company in the sum of \$36,907,273.85. Permission is further asked to authorize The Pacific Telephone and Telegraph Company, Home Telephone and Telegraph Company of Pasadena, United States Long Distance Telephone and Telegraph Company, Consolidated Utilities Company and Corona Home Telephone and Telegraph Company to withdraw from the telephone and telegraph business in the territory mentioned in the application, and to authorize Southern California Telephone Company to engage in the telephone and telegraph business in said territory.

Southern California Telephone Company, hereinafter sometimes referred to as the Southern California Company, a corporation organized and existing under and by virtue of the laws of the State of California, is engaged in the telephone business in and adjacent to the City of Los Angeles. The Pacific Telephone and Telegraph Company, hereinafter sometimes referred to as the Pacific Company, a corporation organized and existing under and by virtue of the laws of the State of California, is engaged in a general telephone and telegraph business throughout the State of California and elsewhere. Home Telephone and Telegraph Company of Pasadena, hereinafter sometimes referred to as the Home Company of Pasadena, a corporation organized and existing under and by virtue of the laws of the State of California, is engaged in a general telephone business in and adjacent to the City of Pasadena. United States Long Distance Telephone and Telegraph Company, hereinafter sometimes referred to as the United States Company, a corporation organized and existing under

and by virtue of the laws of the State of California, is engaged in the operation of a telephone business in the southern part of the State of California, consisting of toll lines in the Counties of Los Angeles, Orange, Riverside, San Diego, San Bernardino, Santa Barbara and Ventura. Consolidated Utilities Company, hereinafter sometimes referred to as the Consolidated Company, a corporation organized and existing under and by virtue of the laws of the State of California, is engaged in a general telephone business in and adjacent to the City of Compton, Los Angeles County. Corona Home Telephone and Telegraph Company, hereinafter sometimes referred to as the Corona Company, a corporation organized and existing under and by virtue of the laws of the State of California, is engaged in a general telephone business in and adjacent to the City of Corona, Riverside County.

It is of record that the Pacific Company is the owner of all of the outstanding capital stock of Home Company of Pasadena; of all the outstanding capital stock of the United States Company; of all of the outstanding stock of the Consolidated Company; and of all of the outstanding stock of the Corona Company. In addition, the Pacific Company owns \$7,000.00 face value of bonds of the Home Company of Pasadena, \$399,000.00 of bonds of the United States Company and \$7,700.00 of bonds of the Corona Company. The par value of these securities and the cost to the Pacific Company is reported in Exhibit No. 1, as follows:

<u>Class of Security</u>	<u>Par Value</u>	<u>Book Value of cost to Pacific Company</u>
Common Stock	\$9,968,807.50	\$7,335,640.90
Preferred Stock	500,000.00	240,724.26
Bonds	413,700.00	360,030.25
Total.....	<u>\$10,882,507.50</u>	<u>\$7,936,395.41</u>

The Southern California Company, which asks permission

to purchase the securities to which reference has been made, asks authority to issue its promissory note to the Pacific Company in the amount of \$7,936,395.41 in payment for the aforesaid securities. This note would later be paid through the issue of common stock by the Southern California Company.

Upon the acquisition by the Southern California Company of all of the outstanding capital stock of the Home Company of Pasadena, United States Company, Consolidated Company and the Corona Company, said companies desire to sell and the Southern California Company desires to purchase all of their properties for the nominal consideration of One (\$1.00) Dollar. Upon the sale of their properties to the Southern California Company, the vendors ask permission to withdraw from the telephone and telegraph business in the territories now served by them, and the purchaser asks permission to engage in the telephone and telegraph business in such territory.

The Pacific Company asks permission to sell and the Southern California Company permission to purchase all of its telephone and telegraph properties located in the Counties of San Bernardino, Ventura, Santa Barbara, Los Angeles, Orange, Riverside, San Diego and Imperial. Upon the sale of these properties, the Pacific Company desires to withdraw from the telephone and telegraph business in the territory to which reference has been made, and the Southern California Company desires to engage in the telephone and telegraph business therein. The purchase price to be paid by the Southern California Company for the properties to be acquired from the Pacific Company, as of December 31, 1929, is \$36,907,273.85, which represents the investment of the Pacific Company in such properties, less a proportion of fixed capital reserves now carried on the books of the Pacific Company. In addition, the Southern California Company will pay to the Pacific Company an amount equivalent to the net additions to said properties made

between December 31, 1929 and the date of the acquisition of the properties by the Southern California Company, less a proportion of the fixed capital reserves. The Southern California Company will issue its promissory note to the Pacific Company in payment for the properties, which note, it appears of record, will later be paid through the issue of common stock by the Southern California Company.

H. D. Pillsbury, President of the Pacific Company, the Southern California Company, United States Company and the Home Company of Pasadena, testified that the basis of the whole transaction is that the properties which the Southern California Company will acquire, that is, both the physical properties of the Pacific Company and the securities now owned by said company, would be taken over by it at the actual cost to the Pacific Company, so that there will be in effect a merging in accounts with no profit involved in the transaction. The following tabulation shows the assets and liabilities of the Southern California Company, had it owned the properties on December 31, 1929:

ASSETS

Intangible Fixed Capital.....	\$ 809,217.28
Tangible Fixed Capital.....	149,119,587.04
Total Investment in Fixed Capital.....	<u>149,928,804.32</u>
Construction Work in Progress.....	3,241,548.22
Investment Securities.....	
Miscellaneous Investments.....	149,328.38
Total Permanent & Long Term Investments	<u>153,319,680.92</u>
Cash and Deposits.....	263,662.12
Marketable Securities.....	3,000.00
Bills Receivable.....	2,295.83
Accounts Receivable.....	4,126,269.58
Materials and Supplies.....	1,388,094.25
Total Working Assets.....	<u>5,783,321.78</u>
Accrued Income Not Due.....	417.23
Sinking Fund Assets.....	35,095.79
Prepayments.....	558,306.81
Unamortized Debt Discount and Expense.....	354,446.25
Unextinguished Discount on Capital Stock....	175,241.35
Other Deferred Debits.....	164,844.71
Total Deferred Debit Items.....	<u>1,287,934.91</u>
TOTAL ASSETS.....	<u>\$160,391,354.84</u>

LIABILITIES

Capital Stock, Common.....	\$ 75,000,000.00
Funded Debt.....	8,406,500.00
Advances from System Corporation for Construction, etc.....	3,632,175.98
Total Long Term Debt.....	<u>12,038,675.98</u>
Bills Payable.....	1,118,681.58
Accounts Payable.....	3,494,477.02
Total Working Liabilities.....	<u>4,613,158.60</u>
Accrued Liabilities Not Due.....	1,477,132.19
Liability on Account of Provident Funds.....	10,000.00
Other Deferred Credit Items.....	116,824.13
Total Deferred Credit Items.....	<u>126,824.13</u>
Reserve for Accrued Depreciation.....	20,838,786.91
Reserve for Amortization of Intangible Capital....	72,733.42
Total Fixed Capital Reserves.....	<u>20,911,520.33</u>
Notes to be issued for Investment in Securities and telephone properties purchased.....	44,843,669.26
Inter Company settlement for Current Assets and Liabilities.....	358,631.06
Appropriated Surplus.....	6,809.41
Corporate Surplus Unappropriated.....	1,014,933.88
Total Surplus.....	<u>1,021,743.29</u>
TOTAL LIABILITIES.....	<u>\$160,391,354.84</u>

The fixed capital assets of the several companies are being taken over by the Southern California Company at the cost shown on the books of the vendor companies, except that there is eliminated \$2,528,584.33 which the United States Company has charged to intangible capital.

F. N. Rush testified that, as operating head of the various companies, he has been constantly impressed by the efficiency and improvement in the service to be gained by operating them as one company instead of six. He believes that economies, efficiencies and improvement of service can be gained by the consolidation of the properties into one company. He estimates the annual saving in operating expenses at \$225,000.00 and the saving in construction expenditures at \$425,000.00. He further testified that they were going into the consolidation for the purpose of a better operation and improved service and not with any thought of increasing rates or lowering the grade of service.

C. E. Temple, General Manager for the United States Company, testified that the switch board facilities of the United States Company were completely outgrown; that most of the toll leads of the United States Company and of the Pacific Company are carried on the same poles between towns, but that at the towns or cities the one toll lead divides and terminates in two switch boards instead of one; and that this situation places the public in the position that it has access to only a portion of the lines of the circuits, instead of the entire group. He further testified that he was to be given supervision over the consolidation of the toll business if the properties are consolidated and that it will be his duty to see that the service rendered will be equal to, or better than the service now rendered by the two companies. He believes that the consolidated service will be much better.

A. Wardman, President of Whittier Home Telephone and Telegraph Company and Downey Home Telephone and Telegraph^{Company,} two independent companies, testified that he has been advocating the consolidation of the two long distance toll systems which are now in effect, because of the additional expense it imposed on his companies and the inconvenience to the public.

In Exhibit No. 3, the revenues and expenses of the consolidated properties for 1929, assuming the consolidation had been in effect and that the Los Angeles rate reduction and other factors which are now in effect had been in effect for the entire year 1929, are reported as follows:

REVENUES

Exchange Revenues.....	\$ 27,233,944
Toll Revenues	10,800,294
Miscellaneous Operating Revenues..	1,135,016
Total.....	<u>\$ 39,169,254</u>

EXPENSES

Current Maintenance.....	\$ 6,214,930
Depreciation.....	7,060,474
Traffic Expenses.....	6,501,750
Commercial Expenses.....	3,716,861
General & Miscellaneous Expenses..	1,410,971
Inst. Pat. and Other Services.....	546,394
Uncollectible.....	433,784
Taxes.....	3,733,560
Rent Deductions.....	161,363
Amortization of Landed Capital....	13,755
Total.....	<u>\$ 29,793,842</u>

Balance Net Revenue.....\$ 9,375,412

Average Plant Equipment and
Working Assets.....\$148,986,207

% to Average Plant Equipment and
Working Assets.....6.29%

The representatives of the Cities of Pasadena, Glendale and Los Angeles during the hearing requested that the hearing be continued for two weeks or so, in order that they might come to a conclusion as to whether they desired to protest the applications or to submit evidence. This request was denied by the presiding Examiner, who gave the representatives of the cities ten days time within which to file any exceptions to any of the evidence submitted or file any additional matter in connection with these proceedings. Neither any exceptions nor any additional matters have been filed with the Commission by any of the cities, except that the cities did ask that the companies be required by the Commission to furnish them with certain information. This request was considered by us. Some of the information requested is in the record, while some we deem immaterial to the issues raised by these proceedings. The record is replete with statements by witnesses for applicants that the consolidation of the properties is being requested only because it is believed

that a better and more economical service can be given through the consolidation of the properties.

In Application No. 16271, Southern California Telephone Company agrees that the price to be paid by it for the properties of The Pacific Telephone and Telegraph Company, Home Telephone and Telegraph Company of Pasadena, United States Long Distance Telephone and Telegraph Company, Consolidated Utilities Company and Corona Home Telephone and Telegraph Company shall not be claimed by it before the Commission, or any other public authority, as representing for rate fixing, or any other purpose, the fair value of the properties which it desires to purchase. Representatives of the companies have agreed that they would comply with any and all obligations of the franchises under which the properties are being operated, and that they would furnish the cities with the same information after the consolidation as they are now furnishing them under any provisions of any franchises or permits from the cities.

Southern California Telephone Company asks permission to issue at par \$50,000,000.00 of its common capital stock. If the transactions had been consummated as of December 31, 1929, Southern California Telephone Company would have paid for the properties which it intends to acquire from The Pacific Telephone and Telegraph Company and others, \$44,843,669.26. As of that date, it would have been indebted to system corporations on account of advances received from them for construction purposes in the amount of \$3,632,175.98. It is believed by Chas. S. Casassa, auditor of Southern California Telephone Company and auditor for the other companies, that the cost of the additions and betterments to the properties of the several companies which Southern California Telephone Company seeks to acquire, between December 31, 1929 and the date said properties will be

transferred, will be more than the difference between the \$50,000,000. of stock which the company asks permission to issue and the purchase price of the properties and advances as of December 31, 1929. If it should happen that the purchase price will be less than \$50,000,000.00, any proceeds realized from the issue and sale of the \$50,000,000.00 of stock not needed to pay for the aforesaid properties and pay indebtedness will be used by the Southern California Telephone Company to pay the cost of additions to its properties.

Southern California Telephone Company requests that it be permitted to issue its notes, payable within one year after date, in payment for the properties which it intends to acquire from The Pacific Telephone and Telegraph Company and other companies. Inasmuch as the notes will mature within one year after date, it appears to us that the issue of said notes need not be authorized by the Commission.

ORDER

The Commission having been asked to enter its order, as set forth in the foregoing opinion, a public hearing having been held before Examiner Fankhauser, and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of the \$50,000,000.00 of stock by Southern California Telephone Company is reasonably required by that Company for the purposes herein stated and that such purposes are not, in whole or in part reasonably chargeable to operating expenses or to income and that these applications should be granted as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

(1) Southern California Telephone Company may, on or before October 1, 1930, purchase from The Pacific Telephone and Telegraph Company, at a cost of not exceeding \$7,936,395.41, the following securities:

\$7,345,800.00 of the capital stock of Home Telephone and Telegraph Company of Pasadena, and
7,000.00 par value of bonds of Home Telephone and Telegraph Company of Pasadena;
2,500,000.00 par value of common, and
500,000.00 par value of preferred stock of United States Long Distance Telephone and Telegraph Company, and
399,000.00 face value of bonds of said company;
80,590.00 par value of common stock of Consolidated Utilities Company;
42,417.50 of common stock, and
7,700.00 par value of bonds of Corona Home Telephone and Telegraph Company.

(2) Home Telephone and Telegraph Company of Pasadena, United States Long Distance Telephone and Telegraph Company, Consolidated Utilities Company and Corona Home Telephone and Telegraph Company may, on or before October 1, 1930, sell for the nominal consideration of One (\$1.00) Dollar to Southern California Telephone Company all of their telephone and telegraph properties set forth in this application, which properties Southern California Telephone Company is hereby authorized to acquire.

(3) The Pacific Telephone and Telegraph Company may, on or before October 1, 1930, sell to Southern California Telephone Company all of its properties situate in the Counties of San Bernardino, Ventura, Santa Barbara, Los Angeles, Orange, Riverside, San Diego and Imperial, for the sum of not exceeding \$36,907,273.85 for said properties as the same existed on December 31, 1929, which sum is said to represent the investment of The Pacific Telephone and Telegraph Company in said properties, less a proportion of the fixed capital reserves, as shown in Exhibit No. 1 filed in these proceedings. The consideration of \$36,907,273.85 shall be increased or decreased by an amount equivalent to the net additions or retirements to said properties made between December 31, 1929 and the date of the acquisition of the

properties by Southern California Telephone Company, less a proportion of fixed capital reserves.

(4) Southern California Telephone Company may issue and sell, at not less than par, on or before October 1, 1930, \$50,000,000 par value of its common capital stock, and shall use the proceeds received from the sale of said stock to pay for the properties which it is herein authorized to acquire from The Pacific Telephone and Telegraph Company and to pay the cost of additions and betterments to its own properties.

(5) Upon the transfer of the properties herein authorized and their acquisition by Southern California Telephone Company, The Pacific Telephone and Telegraph Company, Home Telephone and Telegraph Company of Pasadena, United States Long Distance Telephone and Telegraph Company, Consolidated Utilities Company and Corona Home Telephone and Telegraph Company may withdraw from the telephone and telegraph business in the territory mentioned in these proceedings, and Southern California Telephone Company may engage in the telephone and telegraph business in said territory.

(6) The Pacific Telephone and Telegraph Company may acquire and hold the \$50,000,000.00 of stock of the Southern California Telephone Company, the issue of which is herein authorized.

The authority herein granted to transfer properties and issue capital stock is subject to the following conditions:-

(a) The consideration which Southern California Telephone Company will pay for the aforementioned properties shall not be urged before this Commission, or any other public authority, as fixing the value of said properties for any purpose other than the transfer herein authorized.

(b) All service, financial, contractual and other obligations of Home Telephone and Telegraph Company of Pasadena, United States Long Distance Telephone and Telegraph Company, Consolidated Utilities Company and Corona Home Telephone and Telegraph Company shall be assumed by Southern California Telephone Company, if it acquires the properties of such companies, and all service, contractual and other obligations of The Pacific Telephone and Telegraph Company which relate to the properties which it is herein authorized to sell to Southern California Telephone Company shall be assumed by said Southern California Telephone Company if it acquires the aforesaid properties of The Pacific Telephone and Telegraph Company.

(c). Within sixty days after the acquisition of the aforesaid properties, Southern California Telephone Company shall file with the Railroad Commission a statement showing the date on which it acquired the aforesaid properties, a detailed statement showing the consideration which it paid for such properties, a copy of all book entries recording the purchase of said properties, and a copy of each deed, or other instrument of conveyance, under which it acquires and holds title to the aforesaid properties.

(d) Southern California Telephone Company shall keep such record of the issue of the stock herein authorized and of the disposition of the proceeds as will enable it to file, on or before the 25th day of each month, 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.

(e) The authority herein granted will become effective

twenty days after the date hereof.

DATED at San Francisco, California, this 14th day of
April, 1930.

C. J. ...

Leon ...

Thos. ...

W. J. ...

Commissioners.