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Decision No. 10006.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

In the Matter of the Application of)
ASSOCIATED TELEPHONE COMPANY,)
a corporation, for an order authori-) Application No. 7413.
zing the issuance of $300,000.00)
collateral trust 7 per cent. bonds.)

O'Melveny, Milliken & Tuller, by Stuart O'Melveny,
for applicant.

BY THE COMMISSION:

O P I N I O N.

ASSOCIATED TELEPHONE COMPANY asks permission to sell $300,000.00 of collateral trust 7 per cent. 10-year bonds due February 1, 1932, and to secure the payment of such bonds by the issue and deposit of $400,000.00 of its 6 per cent. mortgage and collateral trust bonds due August 1, 1950. Applicant also asks authority to execute an agreement defining the terms and conditions under which the collateral trust bonds will be issued and to use the proceeds from the sale of the collateral trust bonds to purchase new central office apparatus, telephone equipment and appliances.

A hearing was had on this application on December 30, 1921 before Examiner Williams at Los Angeles.

The Railroad Commission by Decision No. 8685, dated March 3, 1921, authorized Associated Telephone Company to issue not exceeding $611,326.00 par value of common stock and not exceeding $829,200.00 face value of its 6 per cent. mortgage and collateral trust bonds due August 1, 1950. All of the bonds and $511,326.00 of the stock were

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to be used for the purpose of refunding the outstanding bonds and stock, and certain outstanding coupons and claims against the Union Home Telephone and Telegraph Corporation. Stock in the amount of $100,000.00 par value applicant was authorized to sell at not less than $80.oo per share. It appears from the record in this proceeding that all but $59,000.00 of the Union Home Telephone and Telegraph Corporation bonds have been exchanged for bonds of Associated Telephone Company.

Since October 1, 1920, applicant has operated under lease the properties of the Union Home Telephone and Telegraph Corporation, of the Long Beach Home Telephone and Telegraph Company and of the San Bernardino Home Telephone and Telegraph Company. The testimony shows that on October 1, 1920, there were in service at Long Beach 9072 telephones and at San Bernardino 3212 telephones, making a total of 12,284. On November 30, 1921, there were in service at Long Beach 11,352 telephones and at San Bernardino 3583, making a total of 14,935 telephone, or a net increase of 2651 telephones. Of the increase 2280 were in Long Beach. George B. Ellis, applicant's president, estimates (assuming the growth of business to continue as during the past year) that by July 31, 1922, applicant will have 12,500 telephone at Long Beach and 3800 at San Bernardino, making a total of 16,300 telephones in use. The testimony of George B. Ellis further shows that the rapid growth of business at Long Beach necessitates larger quarters at applicant's main central office, that a building is now being constructed for that purpose and that arrangements are being made for new central office equipment. The company has entered into an agreement with the Automatic Electric Company of Chicago for central office equipment, the net cost of which installed is reported at $337,000. The new equipment is said to provide facilities in the central office for about 25 per cent. in excess of the present facilities.

It appears from applicant's Exhibit "3" that the total cost of the new equipment will be $370,000.00. The Automatic Electric Company will allow $33,000.00 for its present two manual switch-

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boards now in service at Long Beach, leaving a net cost of $337,000. Applicant agrees to pay the $337,000. in installments as follows:-

(a).- $4,000.00 in cash upon the execution of the agreement;
(b).- $6,000.00 in cash when substantial shipments (not less than (2000) of dials have been made;
(c).-250,000.00 in cash upon receipt at Long Beach of materials and equipment provided in contract specification No. 660, in the amount of not less than $275,000. according to invoices and agreed prices;

(d).- 27,000.00 in cash upon the final completion of the job and the turning over of the two automatic exchanges and acceptance;
(e).- Balance in promissory notes as follows:-
(1).-Three notes of $10,000.00 each due respectively on or before one, two and three years after date and one note for whatever balance may remain, payable on or before four years after date. The notes are to be dated as of the date of the acceptance of the exchanges and bear interest at the rate of 6½ per cent. per annum.

It is not possible for the Commission in this proceeding to authorize the issue of the notes for the reason that applicant has not incorporated such issue in this application. If applicant finally concludes to issue the notes under the terms set forth, it should file with the Commission a new application asking permission to issue such notes.

In this proceeding, applicant asks authority to issue and sell at 93-1/4 and accrued interest $300,000.00 of 10-year 7 per cent collateral trust bonds and use the proceeds to pay in part for the new central office equipment and appliances to which reference has been made.

Applicant has not as yet filed a copy of the agreement under which the collateral trust bonds will be issued. The record, however, shows that the bonds are to be dated February 1, 1922 and are to mature February 1, 1932. They will be callable at 105 and accrued interest. The company covenants to pay the normal Federal income tax to the extent of 2 per cent and to establish a graduated [illegible] sinking fund sufficient to retire the bonds within 10 years. The holders of the collateral trust bonds are to be given the privilege of exchanging them for applicant's mortgage and collateral trust 6 per

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cent bonds on the basis of 95. The Commission will not at this time authorize the issue of applicant's mortgage and collateral trust bonds, for the purpose of refunding the collateral trust bonds on the basis suggested.

Under the policy of the Commission, frequently announced and to which it adheres, any earnings used for sinking fund payments must come out of the allowance for a fair return.

The Commission will not make an order authorizing the execution of an agreement securing the payment of the collateral trust bonds until a complete copy of such agreement, satisfactory in form, has been filed with the Commission. The agreement should contain a condition permitting the trustee to return to applicant a proper proportion of the bonds deposited as collateral if, as and when, applicant pays any of the collateral trust bonds.

O R D E R

ASSOCIATED TELEPHONE COMPANY having applied to the Railroad Commission for permission to issue bonds and execute a collateral trust agreement, a public hearing having been held and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of bonds referred to in this application is reasonably required by applicant and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED, that ASSOCIATED TELEPHONE COMPANY be, and it is hereby, authorized to issue and sell, for cash, at not less than 95-1/4% of their face value and accrued interest, $300,000.00 of 10-year 7 per cent. collateral trust bonds and issue and deposit as collateral to secure the payment of such collateral trust bonds not exceeding $400,000.00 of its mortgage and collateral trust 6 per cent.

bonds due August 1, 1950.

The authority herein granted is subject to further conditions as follows:-

1.--As collateral trust bonds are being paid by applicant, a proper proportion of applicant's mortgage and collateral trust bonds deposited as collateral shall be returned to applicant's treasury and thereafter not disposed of in any manner whatsoever, except as authorized by the Railroad Commission.

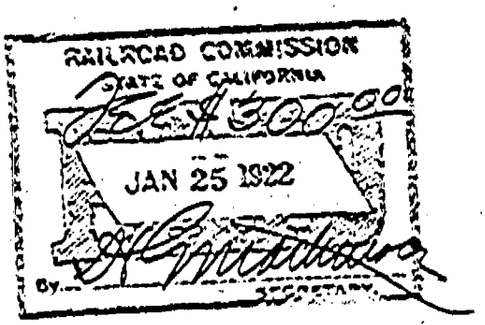
2.--The proceeds realized from the sale of the bonds herein authorized shall be used by applicant for the purpose of paying for the automatic telephone equipment and appliances described in this application and more specifically in Applicant's Exhibit No. "3".

3.--The authority herein granted will not become effective until applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee amounts to $300.00, nor until this Commission has by supplemental order authorized applicant to execute an agreement to secure the payment of the collateral trust bonds.

4.--The authority herein granted will apply only to such

collateral trust bonds as may be issued, sold and delivered on or before August 1, 1922.

DATED at San Francisco, California, this 20th day of January, 1922.



Commissioners.