

## BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of Santa Paula Home Telephone Company for authorization to purchase certain property of The Pacific Telephone and Telegraph Company located in and in the vicinity of the City of Santa Paula; to issue its note in payment thereof, and to apply its present schedule of rates to all subscribers when the two systems shall have been combined; and of The Pacific Telephone and Telegraph Company for authorization to sell certain of its property located in and in the vicinity of the City of Santa Paula to Santa Paula Home Telephone Company.

ORIGINAL

Application No. 1655.

Decision No. 3061

A. H. Blanchard, for Santa Paula Home Telephone Company.

J. T. Shaw, for The Pacific Telephone and Telegraph Company.

W. C. Snyder, City Attorney, for the City of Santa Paula.

GORDON, Commissioner.

OPINION

The applicants in this proceeding are public utility corporations owning and operating telephone systems in the City of Santa Paula, Ventura County, California, and vicinity. The two corporations are competitors in business, each system having been in operation before the Railroad Commission acquired jurisdiction. Santa Paula Home Telephone Company was organized during the year 1905, after The Pacific Telephone and Telegraph Company had already been operating in the territory, and since its organization has secured the greater part of the local patronage. It appears that The Pacific Telephone and Telegraph Company is now operating at a loss in this field, and a tentative agreement having been reached between it and Santa Paula Home Telephone Company, this application has been drawn up by both parties seeking the authorization of the Railroad Commission for the sale of The Pacific Company's local

system and the consolidation of the two to be owned and operated by Santa Paula Home Telephone Company.

The Pacific Telephone and Telegraph Company owns and operates a general system of local exchanges and long distance toll lines throughout this and other Pacific coast states. Its Santa Paula exchange is connected <sup>with</sup> its long distance toll system to provide long distance connections to outside points. Santa Paula Home Telephone Company does not operate exchanges in other cities, but has lines extending from Santa Paula to the town of Saticoy and to or near the town of Fillmore. The Pacific Company operates exchanges at Saticoy and Fillmore and under the terms of the proposed sale Santa Paula Home Telephone Company will continue to serve its present patrons at these places, but will not take on other patrons. In other words, its operations, except as to present business, will be confined to the City of Santa Paula and vicinity. The Pacific Company will take care of all of its present business and such additional business as may be offered at Saticoy and Fillmore, but will retire from the City of Santa Paula so far as local exchange business is involved. The Pacific Company's toll lines, however, will connect with the Santa Paula Company's exchange for long distance connections to outside points.

The property to be sold to Santa Paula Home Telephone Company will be all of The Pacific Company's local exchange property in Santa Paula excepting such portions of it as may not be required by Santa Paula Company. None of its long distance toll properties will be included in the sale. As shown in the application, this plan will involve,-

- (1) The sale of property the original cost of which is not known, but of which the present value, as fixed by The Pacific Telephone and Telegraph Company, is \$27,845.58, for the sum of \$25,400.00, and the consolidation of the two plants.
- (2) The application of the present rate schedule of Santa Paula Home Telephone Company to all subscribers of the combined system upon the completion of the proposed consolidation, this rate schedule to continue

in effect for a sufficient time to enable the Commission to determine the revenues and expenses resulting from such operation.

- (3) The withdrawal of The Pacific Telephone and Telegraph Company from the local field except for long distance toll service.

The present plant of Santa Paula Home Telephone Company is, for the most part, in a poor condition. In numerous places throughout the city, particularly in the business section, temporary construction has been placed by stringing wires on knobs attached to the sides of its poles. Most of the subscribers' leads are of open wire construction where trees are troublesome and where cable construction should be employed. In the outlying sections, open wires have been placed on power poles and the power company has ordered their removal. Many of Santa Paula Company's poles are in poor condition and must be taken down and replaced, and many of the subscribers' lines are now taxed beyond their normal capacity. The plant requires a general overhauling and additional plant should be provided not only to relieve the present overloaded circuits but to take care of additional business as it may be offered.

Representatives of the company have stated that for some time past a consolidation of the two plants has been contemplated, and that as their consolidation would bring about the needed improvements and also provide sufficient additional facilities for a considerable future period, other action has been deferred pending the outcome of the contemplated consolidation. It is claimed that the price for which it can purchase The Pacific Company's property and the cost of combining the two will be approximately the same as it would cost to purchase new material from other sources and perform the necessary work to provide a similar plant. It is, of course, obvious that if the latter course were followed both companies would continue in competition for the business and the public would continue to carry the double burden when one company could,

perhaps, as well if not better serve the entire community. If, by consolidating the two systems, the cost of maintaining the present duplication can be eliminated and if the public may be as well served by one company, such course will work to the public benefit.

With reference to the value of the property which The Pacific Telephone and Telegraph Company proposes to dispose of to Santa Paula Home Telephone Company and to its value to the Santa Paula Company after the consolidation:

An inventory and appraisal of this property fixing its present value at \$27,845.58 has been filed with the application and designated as "Applicants Exhibit B". It has been estimated that the cost of construction and plant rearrangement necessary to combine the two systems will amount to approximately \$1875.00. The selling price of the property is fixed at \$25,400.00; thus, with the addition to this price of the estimated cost of the physical consolidation, \$1875.00, Santa Paula Company would acquire property claimed to be valued at \$27,845.58 for \$27,275.00. Plans have also been drawn up showing in detail the work which it is proposed to do to combine the two plants as embodied in the estimate of \$1875.00. Testimony was introduced at the hearing of this application to the effect that after the plants have been combined there will remain about ten per cent of the present property which Santa Paula Company proposes to acquire which will not be in use. A survey of the territory and an examination of these plans by the Commission's engineers indicates, however, that there will be very considerably more than this percentage of the combined plants which, in all probability, will remain idle for a considerable period, even allowing for future growth of business; and it is quite probable that if a valuation were being made for rate fixing purposes, a considerable portion of its value would be disallowed.

The Pacific Company's plant, however, is in general in very good condition and it is so arranged and of such character

that, aside from the fact that it will provide more plant than Santa Paula Company will require for present needs, it can without question utilize the remaining portions to advantage at once. The reasonableness of rates is not directly at issue in this proceeding, and since the valuation of the property which it is desired to sell and consolidate with Santa Paula Company's present system appears to call for no particular objection aside from the matters to which attention has been directed, and since the value of the property which that company now owns will be very materially affected by the consolidation, and it appearing to the Commission after investigation that the price to be paid for the property is not greatly disproportionate to the value thereof, it does not seem essential at this particular time to pass upon the value of this property. We shall then next consider the probable effect of applying the present rate schedules of Santa Paula Home Telephone Company to all subscribers of the combined system and to that company's policy with reference to its future operation under those or other rates.

The present rate schedules of Santa Paula Home Telephone Company and those of The Pacific Telephone and Telegraph Company are the same for similar classes of service except that Santa Paula Company's schedules provide rates which are 25% per month higher than The Pacific Company's rates if subscribers fail to pay their bills on or before the tenth day of the month for which bills are rendered. If payment is made by the tenth of the month, the rates of both companies are the same. The Pacific Company's schedule, however, provides a rate for four (4) party residence service, while Santa Paula Company's schedule quotes no rate for residence service lower than for two (2) party, and the latter rate is 25% per month higher than The Pacific Company's four (4) party rate. The effect of applying Santa Paula Company's schedule would be to discontinue four (4) party residence service and to require all patrons now having this class of service to take a higher class of service at an advanced rate or to discontinue their service entirely. In-

stead of permitting this change, I believe that patrons should be allowed the option of retaining the present four-party service if they prefer it and that the same class of service should also be available to any new patrons who may desire it. There are also certain present patrons of The Pacific Company who are now paying rates for suburban service which are lower than the rates paid by other patrons of The Pacific Company for similar service. This is, of course, a discrimination but one which has been permitted to continue pending future determination by the Commission with reference to the proper disposition of deviations and exceptions from published rates. There appears to be no good reason, however, at this time why Santa Paula Home Telephone Company, if permitted to purchase this property, should not charge all suburban subscribers of the consolidated system similar rates for similar service rather than to require it to continue the discrimination.

With reference to a possible change of present rates after consolidation, Paragraph XV of this application reads:

"That when the two systems are combined, and thereafter until at least sufficient time has elapsed to enable this Commission to determine the revenue and expense resulting from the operation of the consolidated exchange, it is proposed to continue in effect the schedule of rates now charged by Santa Paula Home Telephone Company and on file with this Commission, applying said schedule to all subscribers to the combined service."

The inference is plain that having acquired a monopoly of the business the company's intention is to seek to increase the rates, although it is doubtful whether it would do so in the face of competition. It is also admitted by this company that if, after the consolidation, the present rates will not afford the return to which it may reasonably be entitled, it will apply to the Commission for authorization to increase them.

With reference to the withdrawal of The Pacific Company's local exchange service from this territory, there appears to be no objection on the part of the public, provided no unreasonable rate alterations will follow. On the other hand, the present patrons

of Santa Paula Company who are not also patrons of The Pacific Company would have access to the entire toll system of The Pacific Company, whereas at the present time their access to toll service is limited to points which can be reached over the system of the United States Long Distance Telephone and Telegraph Company within certain southern portions of California, and the present patrons of The Pacific Company who are not also patrons of Santa Paula Company will gain access to all points on the lines of the United States Long Distance Company to which The Pacific Company's toll lines may not now extend. Further, as the service of the United States Long Distance Company will also be continued, all patrons of the consolidated system who may desire connection with any point which is reached by the toll lines of both long distance companies may have the option of using either company's service. Thus, the only consideration of interest to the general public of this territory on which objection may be based will be with reference to the rates which it may be required to pay following the consolidation.

The Commission, of course, should very carefully consider on the one hand whether public utilities of this character should be permitted to merge when it is apparent that rate increases may result, and on the other hand whether the fact that rate increases may result will be sufficient justification, in view of all of the circumstances, for denying authority to merge.

Santa Paula Home Telephone Company has stated that under the present rates it will be in a position to carry on the business and pay interest on the note which it proposes to give to The Pacific Telephone and Telegraph Company in payment for the property. Attention has also been directed to the probability that, in the event of a valuation of the company's property being made for rate fixing purposes, a portion of the value of the purchased property may be excluded. It is obvious that since a consolidation of the

two plants will involve changes in the present plants, thereby necessitating a complete revaluation after consolidation, any subsequent action which may arise involving the reasonableness of rates can be considered only on its merits and entirely without reference to the present proceeding. Aside from a consideration of rates, which, under the conditions, cannot be determined at this time, it is apparent that a consolidation in this case will be to the benefit of the public. Accordingly, and in view of the circumstances herein referred to, the following order is submitted.

#### ORDER

Application having been made by Santa Paula Home Telephone Company for authority of this Commission to purchase certain property of The Pacific Telephone and Telegraph Company located in and in the vicinity of the City of Santa Paula, Ventura County, California; to issue its note in the sum of \$25,400.00, with interest at the rate of six per cent per annum, in payment thereof, and to apply its present schedule of rates to all subscribers when the two systems shall have been combined; and application having been made by The Pacific Telephone and Telegraph Company for authority of this Commission to sell certain of its property located in and in the vicinity of the City of Santa Paula, Ventura County, California, to Santa Paula Home Telephone Company; and a hearing having been held and the Commission having been fully apprised in the premises; and it appearing that the public interest will be served by granting the application; and it appearing further to the Commission that the purposes for which the said note is to be issued are for the payment of expenditures which are not reasonably chargeable in whole or in part to operating expenses or to income,

IT IS HEREBY ORDERED as follows:

That Santa Paula Home Telephone Company be and it is hereby permitted to purchase certain property of The Pacific Telephone

and Telegraph Company located in and in the vicinity of the City of Santa Paula, Ventura County, California, as described and set forth in an inventory and appraisal which is attached to the application herein and designated as Exhibit "B", for the sum of \$25,400.00.

That Santa Paula Home Telephone Company be and it is hereby permitted to issue its two year note in the sum of \$25,400.00, bearing interest at the rate of six per cent per annum, to The Pacific Telephone and Telegraph Company in payment for the sale of the property herein referred to; said note may be issued under the following conditions and not otherwise, towit:

- (1) The authority herein granted to issue said note shall apply only to such note as may be issued on or before March 1, 1916.
- (2) Santa Paula Home Telephone Company shall file with this Commission within thirty days after the note herein authorized has been issued a statement setting forth the note issued under the authority herein granted.
- (3) This order shall not be effective in so far as it authorizes a note issue until Santa Paula Home Telephone Company shall have paid the fee prescribed by Section 57 of the Public Utilities Act.

That Santa Paula Home Telephone Company be and it is hereby directed, when the systems of both the applicants herein shall have been consolidated, as set forth in this application, to apply to all subscribers to the consolidated system, pending the further order of this Commission, its schedules of rates now on file with the Commission, as follows:

	<u>BUSINESS</u>	<u>RESIDENCE</u>
1 party	\$ 2.75	\$ 1.75
2 party	2.25	1.50
Suburban 4 to 10 party	2.75)	2.75)
" 8 " 10 "	1.75)	1.75)
Extensions	1.00	.50
The above rates, except extension telephones, are subject to a discount of 25% if paid on or before the tenth day of the month.		

PROVIDED that those present subscribers of The Pacific Telephone and Telegraph Company who now are provided with four-party residence service may, if they so elect, be provided by Santa

Paula Home Telephone Company with similar service and at the same rate now paid by them to The Pacific Telephone and Telegraph Company for their present service.

AND PROVIDED FURTHER that the said rate schedule of Santa Paula Home Telephone Company shall be so revised and refiled with this Commission, within thirty days from the date upon which it shall take over the present business of The Pacific Company, to provide for a rate for four-party residence service as hereinabove provided.

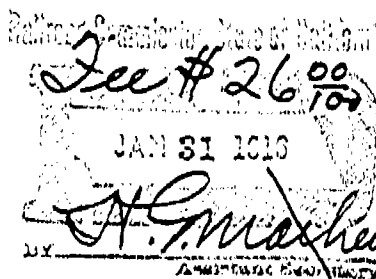
AND IT IS HEREBY FURTHER ORDERED that The Pacific Telephone and Telegraph Company be and it is hereby permitted to convey to Santa Paula Home Telephone Company its property as hereinabove provided for.

AND IT IS HEREBY FURTHER PROVIDED that the amount hereinabove authorized to be paid by Santa Paula Home Telephone Company for the transfer to it by The Pacific Telephone and Telegraph Company shall not be taken by this Commission or other authority as representing the value for rate making or other purposes of the property herein authorized to be sold and transferred.

This order to be and become effective upon its approval.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 25th day of January, 1916.



J. H. Boardman  
W. L. Gardner  
Oran R. Berlin

Commissioners.