

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

-----

In the matter of the application of  
 SANTA BARBARA TELEPHONE COMPANY for  
 an order authorizing the issue of  
 capital stock and bonds, the execution  
 of a deed of trust and operation under  
 various franchises; of HOME TELEPHONE  
 & TELEGRAPH COMPANY OF SANTA BARBARA  
 COUNTY for an order authorizing the  
 sale of its property to SANTA BARBARA  
 TELEPHONE COMPANY; of HOME TELEPHONE &  
 TELEGRAPH COMPANY OF SANTA BARBARA for  
 an order authorizing the sale of its  
 property to SANTA BARBARA TELEPHONE  
 COMPANY; of SUNSET TELEPHONE AND TELE-  
 GRAPH COMPANY for an order authorizing  
 the sale of its property in Santa Bar-  
 bara County and a part of San Luis  
 Obispo County to THE PACIFIC TELEPHONE  
 AND TELEGRAPH COMPANY; and of THE  
 PACIFIC TELEPHONE AND TELEGRAPH COMPANY  
 for an order authorizing the sale of  
 certain of its property to SANTA BARBARA  
 TELEPHONE COMPANY.

Application No. 2265.

Pillsbury, Madison & Sutro, by H. D. Pillsbury;  
 and James T. Shaw for The Pacific Telephone and  
 Telegraph Company and Sunset Telephone and Tele-  
 graph Company.

Chickering & Gregory, by Allen L. Chickering, for  
 Home Telephone & Telegraph Company of Santa Barbara  
 and Home Telephone & Telegraph Company of Santa Bar-  
 bara County.

Frank L. Rabe for Santa Barbara Telephone Company.

THELEN and GORDON, Commissioners.

### O P I N I O N

This is a proceeding for the consolidation of the  
 properties of three telephone companies operating in Santa  
 Barbara County, with the exception of certain toll property  
 of The Pacific Telephone and Telegraph Company.

A public hearing in this proceeding was held in  
 Santa Barbara on September 12, 1916.

The petition herein alleges, in effect, that Santa Barbara Telephone Company, Home Telephone & Telegraph Company of Santa Barbara County, hereinafter called the County Company, Home Telephone & Telegraph Company of Santa Barbara, hereinafter called the City Company, and The Pacific Telephone and Telegraph Company, hereinafter called the Pacific Company, are all California corporations authorized to engage in the telephone business; that the financial condition of petitioners is set forth in the petition; that the Santa Barbara Company desires to acquire the properties of the other three petitioners, as more specifically described in the petition and exhibits attached thereto; that the Santa Barbara Company desires to issue a portion of its authorized capital stock and bonds for cash and for the property of the other three petitioners, as specifically set forth in the petition; that the "value" of the physical portion of the property to be acquired from the County Company and the City Company, not including certain additions made subsequent to June 30, 1915, is \$487,818.36; that the "value" of the physical property to be acquired from Pacific Company is \$341,702.96; that the Santa Barbara Company desires to authorize a bonded indebtedness of the face value of \$700,000.00, to be secured by deed of trust; that the County Company, the City Company and The Pacific Telephone and Telegraph Company are respectively the owners of properties specifically described in the petition and in exhibits attached thereto; that the properties to be acquired from the County Company and the City Company are subject respectively to deeds of trust and to bonds secured thereby in the amounts specified in the petition, and that the Santa Barbara Company desires to refund said bonds and to discharge the lien of said deeds of trust; and that the Santa Barbara Company desires to issue one share of its capital stock to each of its five directors.

The petition asks the Railroad Commission to make its order as follows:

(1) Authorizing the issue by Santa Barbara Company of its bonds of the face value of \$100,000.00; to be sold for not less than 90 per cent of their face value, plus accrued interest;

(2) Authorizing the Santa Barbara Company to issue to the City Company its preferred capital stock of the par value of \$88,000.00 and its common capital stock of the par value of \$66,000.00;

(3) Authorizing the Santa Barbara Company to issue to the Pacific Company its preferred capital stock of the par value of \$315,000.00;

(4) Authorizing the Santa Barbara Company to issue to the present holders of bonds of the County Company, bonds of the Santa Barbara Company of the face value of \$127,500.00 and to the present holders of bonds of the City Company bonds of the Santa Barbara Company of the face value of \$169,000.00;

(5) Authorizing the Santa Barbara Company to create a bonded indebtedness of the face value of \$700,000.00; and to secure the same by deed of trust;

(6) Authorizing the County Company and the City Company to sell their entire property except their right to be a corporation, to Santa Barbara Company, authorizing the Pacific Company to sell a specified portion of its property to the Santa Barbara Company; and authorizing the Santa Barbara Company to purchase and thereafter operate said properties;

(7) Authorizing the Santa Barbara Company to acquire the capital stock of the County Company, and authorizing the City Company and the Pacific Company to acquire capital stock of the Santa Barbara Company;

(8) Authorizing Santa Barbara Company to issue its

bonds of the face value of \$1000, \$500 and \$100, respectively, in exchange for its bonds of lower denominations when hereafter requested by the holders of such bonds;

(9) Authorizing Santa Barbara Company to issue one share of its common capital stock to each of its five directors.

The subject matter of this opinion will be considered under the following heads:

1. Telephone competition in Santa Barbara County.
2. The Pacific Telephone and Telegraph Company.
3. Home Telephone & Telegraph Company of Santa Barbara.
4. Home Telephone & Telegraph Company of Santa Barbara County.
5. Sunset Telephone and Telegraph Company.
6. Desire for consolidation.
7. Plan of consolidation, financial and physical.
8. Franchises.
9. Conditions after consolidation- balance sheet, service, rates, revenues and expenses.

1. TELEPHONE COMPETITION IN SANTA BARBARA COUNTY.

Sunset Telephone and Telegraph Company, the Pacific Company's predecessor, owned and operated a local and long distance telephone service in a limited portion of Santa Barbara County at a time, not definitely shown in the record herein, prior to the incorporation of the City Company and the County Company, the two "Home" companies. The testimony shows that the same failure to give just and reasonable service which caused the incorporation of "Home" companies in other sections of California caused the establishment of the City Company and the County Company in Santa Barbara County. In that portion of Santa Barbara County which was at the time being served by Sunset Telephone and Telegraph Company, general complaints existed with reference to the service of Sunset Telephone and Telegraph Company, its failure to make desired extensions and its general policy toward the public. A

group of Santa Barbara capitalists saw in this condition an opportunity to establish a competing telephone company in the City of Santa Barbara.

The City Company was accordingly incorporated on May 1, 1904, and shortly after commenced business with 500 telephones. In addition to its Santa Barbara exchange, the City Company established an exchange at Montecito in 1904, at Carpinteria in 1906, and at Goleta in 1911.

In order to carry on its business more successfully, the City Company concluded that it would be necessary to establish toll lines and local exchanges in Santa Barbara County outside the City of Santa Barbara and its environments. Accordingly, on August 28, 1906, the City Company caused the incorporation of the County Company, which company commenced operations on May 1, 1907. The County Company's original installation included a toll line from Santa Barbara to Santa Maria, with loops to Lompoc and Guadalupe and exchanges at Santa Ynez, Los Olivos, Los Alamos, Orcutt, Santa Maria, Guadalupe and Lompoc, all in Santa Barbara County. A year or two later, the Los Olivos exchange was cut into Santa Ynez exchange and the Orcutt exchange into the Santa Maria exchange. The territory served by the County Company, outside the cities or towns of Lompoc, Santa Maria and Santa Ynez is the oil and farming district in the northerly end of Santa Barbara County.

The City Company and the County Company entered into a contract with United States Long Distance Telephone and Telegraph Company for toll service to and from points outside of Santa Barbara County.

The entry of the City and the County Companies into the field resulted in a period of severe competition between the City and the County Companies on the one hand, and The Pacific Telephone and Telegraph Company on the other. The disastrous effects of this competition on the finances of these companies

will hereinafter be set forth. We may illustrate the drastic steps resorted to during this period of competition by drawing attention to the fact that in its Santa Barbara and Lompoc exchanges the Pacific Company reduced its rates for one party residence service to \$1.00 per month and for two party residence service to 75 cents per month, which rates we believe to be the lowest/<sup>rates</sup>for this class of telephone service obtaining in any portion of California in any community having the characteristics, from a telephone point of view, obtaining in these two exchanges.. As the result of this competition, the three telephone companies involved found themselves on June 30, 1915, with the telephone stations in their various exchanges in Santa Barbara County shown on Table No. I.

TABLE NO. I

TELEPHONE STATIONS CONNECTED IN SANTA BARBARA  
COUNTY TO THE SYSTEM OF THE PACIFIC TELEPHONE  
AND TELEGRAPH COMPANY AND THE SYSTEMS OF  
HOME TELEPHONE & TELEGRAPH COMPANY OF SANTA  
BARBARA AND HOME TELEPHONE & TELEGRAPH COMPANY  
OF SANTA BARBARA COUNTY, DUPLICATE STATIONS  
AND TOTAL STATIONS WITH DUPLICATE STATIONS  
ELIMINATED ON June 30, 1915.

<u>Exchange</u>	<u>Pacific Company</u>			<u>Home</u>	* <u>Total</u> <u>Stations</u> <u>Duplicates</u> <u>Eliminated</u>
	<u>Total</u> <u>Stations</u>	<u>Duplicate</u> <u>Stations</u>	<u>Exclusive</u> <u>Stations</u>	<u>Companies</u> <u>Total</u> <u>Stations</u>	
Carpinteria	81	40	41	172	213
Gaviota	0	0	0	0	0
Refugio	1	0	1	0	1
Goleta	33	0	33	170	203
Guadalupe	43	17	26	67	93
Harris Station	-	-	-	0	0
Lompoc	322	129	193	367	560
Los Alamos	32	13	19	32	51
Los Olivos	13	8	5	24	29
Montecito	84	36	48	413	461
Santa Barbara	2086	670	1416	3177	4593
Santa Maria	520	240	280	551	831
Santa Ynez	<u>0</u>	<u>0</u>	<u>0</u>	<u>85</u>	<u>85</u>
Total	3215	1153	2062	5058	7120

Estimated Duplicate Stations to be retained in  
City of Santa Barbara after consolidation 35

Estimated Total Stations, Duplicate Stations  
(except 35 in City of Santa Barbara) eliminated 7155

\* Estimated for June 30, 1915.

Detailed reference will hereinafter be made to the effect of this competition on the telephone companies which engaged therein and to the desire for consolidation both on the part of the telephone companies and of the general public in Santa Barbara County resulting therefrom.

2. THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY

The Pacific Company is engaged in a local and long distance telephone business in the State of California and elsewhere. In Santa Barbara County, the Pacific Company operates a long distance business and has exchanges at Carpinteria, Gaviota, Guadalupe, Las Cruces, Lompoc, Los Alamos, Los Olivos, Montecito, Refugio, Santa Barbara, Santa Maria, and Santa Ynez. The Pacific Company's exchanges at Gaviota, Las Cruces, Los Olivos and Refugio are exclusive. As appears from Table No. I, the Pacific Company, on June 30, 1915, had a total of 3215 stations in Santa Barbara County, of which stations 2062 were exclusive.

The Pacific Company proposes to transfer to the Santa Barbara Company certain franchise rights hereinafter more specifically referred to, and all its physical property in the County of Santa Barbara and in that portion of the County of San Luis Obispo which is known as Rancho Guadalupe, with the exception of the following property:

- (a) The through toll pole lines.
- (b) The through toll aerial wires, including the Santa Barbara-Santa Maria loop, which is used as one of the physical loops on which a through phantom circuit is set up.
- (c) The subscribers' stations which are duplicated by stations of the County Company and the City Company.
- (d) The equipment in the offices at Montecito, Santa Ynez, Los Olivos, Lompoc, Los Alamos and Guadalupe.



(e) The plant comprising the office entrances at Montecito and Lompoc.

The Pacific Company presented as its Exhibit No. 13 herein, an inventory and appraisal of the company's telephone property in Santa Barbara County, involved in the consolidation, as of June 30, 1915.

The amounts of money shown in the Pacific Company's Exhibit No. 13 are represented as being the "structural value" of the property as of June 30, 1915. The Pacific Company defined "structural value" as being "the cost of reproduction or replacement of the physical structures, less the diminution in value due to wear, tear, obsolescence and inadequacy known to exist at the date of the appraisal and using the words replacement or reproduction to mean the cost of building the plant in the manner in which it was built." The unit prices for material used by the Pacific Company were the average prices in effect during the three and one-half years ending June 30, 1915, and the prices for labor were general prices secured from the Pacific Company's knowledge of the costs of telephone labor in other parts of the State. In ascertaining the diminution in value of the property, the Pacific Company did not take into consideration the usual life tables and did not ascertain the number of years during which the various portions of the property have actually been in service. The company's conclusions with reference to the diminution in value of the property rest largely on inspection of the property.

The Pacific Company represented that the original cost to date of this property is not available.

The Railroad Commission presented, as Railroad Commission's Exhibit No. 1, an inventory and appraisal of the physical property involved in this proceeding and belonging to each of the three existing telephone companies as of June 30, 1915.

prepared by the Railroad Commission's engineering department. The department's estimate of reproduction cost is an estimate to reproduce or replace the physical property as of June 30, 1915. The estimate of reproduction cost less depreciation is the result of the subtraction from the estimated reproduction cost of the accrued depreciation, determined by a consideration of the lives of the property, as modified by inspection.

Table No. II shows the Pacific Company's estimate of the "structural value" of the physical property to be sold by it and the Railroad Commission's engineering department's estimate of the reproduction cost and of the reproduction cost less depreciation of the same property.

TABLE NO. II.

ENGINEERING ESTIMATES, PHYSICAL PROPERTY TO BE SOLD BY THE  
PACIFIC TELEPHONE AND TELEGRAPH COMPANY June 30, 1915.

<u>A c c o u n t s</u>	<u>Engineering Department</u>			<u>Difference:</u> between Columns Nos. 1 & 3:
	<u>Company</u>	<u>Reproduction:</u>	<u>Reproduction:</u>	
	<u>Structural:</u>	<u>Cost</u>	<u>Cost less</u>	
	<u>Value</u>	<u>Cost</u>	<u>Depreciation</u>	
	<u>1.</u>	<u>2.</u>	<u>3.</u>	<u>4.</u>
:207-Toll Right of Way	234.37	234.37	234.37	...
:207-Right of Way	417.79	417.79	417.79	---
:211-Land	6,351.00	5,000.00	5,000.00	1,351.00
:212-Buildings	11,175.00	12,047.00	9,972.00	1,203.00
:221 Central Office Telephone: Equipment	42,604.00	44,936.00	31,675.00	10,929.00
:222 Other Equipment of Cen- tral Offices	594.00	743.00	594.00	...
:231 Station Apparatus	9,965.00	10,834.00	9,705.00	260.00
:232 Station Installations	6,785.00	7,320.00	6,220.00	565.00
:233 Interior Block Wires	276.00	274.00	206.00	70.00
:234 Private Branch Exchanges	2,697.00	2,935.00	2,500.00	197.00
:235 Booths & Special Fittings	1,007.00	1,303.00	1,091.00	84.00*
:241 Exchange Pole Lines	83,714.00	101,592.00	72,850.00	10,864.00
:242 Exchange Aerial Cable	51,484.00	57,597.00	44,349.00	7,135.00
:243 Exchange Aerial Wire	65,351.00	64,295.00	47,331.00	18,020.00
:244 Exchange Underground Conduits	8,274.00	9,489.00	7,591.00	683.00
:245 Exchange Underground Cable	11,003.00	11,422.00	8,480.00	2,523.00
:251 Toll Pole Lines	12,603.00	14,327.00	9,312.00	3,291.00
:253 Toll Aerial Wire	17,795.00	18,195.00	12,556.00	5,239.00
:261 Office Furniture & Fixtures	1,379.00	1,725.00	1,379.00	...
:262 General Shop Equipment	6.00	7.00	6.00	...
:263 General Store Equipment	206.00	229.00	206.00	...
:264 General Stable & Garage Equip.	1,872.00	2,340.00	1,872.00	...
:265 General Tools & Implements	856.00	950.00	856.00	...
:268 Interest during Construction	1,714.00	...	...	1,714.00
-- Materials & Supplies on Hand for use in Calif.	3,342.00	3,342.00	3,342.00	...
	341,705.16	371,554.16	277,745.16	63,960.00

\*Engineering Department in excess of Company.

Table No. III shows the earnings and expenses of the Pacific Company in connection with its Santa Barbara County exchanges during the calendar years 1911 to 1915, inclusive, on both toll and exchange business, as reported in Exhibit No. 14 of petitioners.

TABLE NO. III.

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY-  
EARNINGS AND EXPENSES, SANTA BARBARA  
COUNTY EXCHANGES, 1911 to 1915, INCLUSIVE.

<u>Item</u>	<u>1911</u>	<u>1912</u>	<u>1913</u>	<u>1914</u>	<u>1915</u>
<u>Earnings:</u>					
Exchange Revenue	\$40,459.73	\$38,435.99	\$42,787.96	\$45,891.03	\$47,466.66
Toll Revenue	8,468.49	8,737.83	9,626.11	9,261.76	10,776.85
Licensee Revenue	*2,162.88	*2,080.12	*2,322.40	*2,435.97	*2,579.79
Misc. Operating Revenue	--	--	1,027.44	1,169.55	1,284.25
Total Earnings	\$46,765.34	45,093.70	51,119.11	53,886.37	56,947.97
<u>Expenses:</u>					
<u>Operation</u>					
General	1,236.66	1,322.54	1,879.34	2,256.45	13,421.94
Commercial	14,424.11	15,881.65	16,575.03	16,166.48	15,089.82
Traffic	14,921.26	15,230.96	16,258.12	17,019.80	18,722.02
Rights, Privileges and Use of Property	219.40	302.32	--	--	--
Insurance	76.83	100.90	--	--	--
<u>Maintenance:</u>					
Repairs	10,767.87	7,822.82	7,065.41	7,223.35	6,895.65
Station Removals and Changes	7,678.01	5,323.10	5,429.54	5,727.53	5,316.58
Depreciation	24,174.31	24,696.91	26,604.03	27,559.69	28,009.96
<u>Misc. Expenses:</u>					
Taxes	1,704.03	2,561.33	2,627.58	3,053.57	3,183.12
Misc.	--	--	1,616.15	2,010.09	2,132.58
Total Expenses	75,202.48	73,242.53	78,055.20	81,016.96	92,771.67
<u>Net Revenue:</u>	*28,437.14	*28,148.83	*26,936.09	*27,130.59	*35,823.70

\*Deficit

The testimony shows that the amounts set down for depreciation in Table No. III do not actually appear upon the Pacific Company's books, but were amounts estimated for the purpose of this proceeding, being annually 7.94 per cent of the estimated "structural value" of the depreciable property.

As will be observed from Table No. III, the Pacific Company failed to earn even maintenance and operating expenses from its Santa Barbara County exchanges, during the years 1911 to 1915, inclusive, with the exception of the year 1914, in which year the company reports that it earned \$429.10 for depreciation annuity and return on the fair value of the property. During each of the other years, the Pacific Company did not have one dollar of earnings available for depreciation or for return on the fair value of the property. Attention, however, should be drawn to the fact that the general expenses in the year 1915 were abnormally high, due to the inclusion of the cost of the valuation and other matters, and that on the basis of normal general expenses, the Pacific Company had a few thousand dollars available as the result of its 1915 operations in Santa Barbara County, for a portion of the amount which should have been set aside as depreciation reserve. Even in 1915, however, not a dollar was earned for the payment of a return on the fair value of the property. Very careful consideration must be given to these facts in determining the amount of securities which the Santa Barbara Company should be authorized to issue in exchange for this property.

3. HOME TELEPHONE & TELEGRAPH COMPANY  
OF SANTA BARBARA.

Home Telephone & Telegraph Company of Santa Barbara, herein referred to as the City Company, was incorporated on September 26, 1903, with an authorized capital stock of 2000 shares

of the par value of \$100.00 each, or a total par value of \$200,000.00. On April 25, 1907, by amendment of its articles of incorporation, the authorized capital stock was increased from 2000 shares to 3000 shares, of the par value of \$100.00 each. Of the capital stock thus authorized, 2200 shares, of the par value of \$100.00 each, are reported as being outstanding. The City Company has authorized a bonded indebtedness of \$200,000.00 of first mortgage 5 per cent gold bonds, secured by a deed of trust or mortgage to Title Insurance & Trust Company, dated January 2, 1904, and amended on May 10, 1904, September 26, 1906, and March 22, 1907. The entire authorized issue of \$200,000.00, face value of bonds, is outstanding.

On March 22, 1907, the City Company mortgaged all its properties then owned or thereafter to be acquired, as security for the bond issue of the County Company, subject only to the prior lien of the City Company's deed of trust or mortgage dated January 2, 1904. In consideration for this guaranty, the County Company issued 1850 shares of its capital stock to the City Company.

The City Company's only other indebtedness is reported to be bills payable amounting to \$32,500.00.

The City Company owns and operates exchanges at Santa Barbara, Montecito, Goleta and Carpinteria. The exchange at Goleta is exclusive. Table No. I shows that the City Company on June 30, 1915, had 3932 stations in its four exchanges. In Santa Barbara City, the company had 3177 stations as contrasted with 2086 stations of the Pacific Company; in Montecito it had 413 as contrasted with 84 of the Pacific Company; in Goleta it had 170 as contrasted with 33 of the Pacific Company; and in Carpinteria it had 1721 as contrasted with 81 of the Pacific Company.

Petitioners presented as Exhibit No. 12 herein, an

estimate of the "structural value" of the physical properties of the City Company and the County Company, prepared in the same manner as the estimate of the "structural value" of the physical property to be sold by the Pacific Company.

Railroad Commission's Exhibit No. 1 contains an estimate of the reproduction cost as of June 30, 1915, and of the reproduction cost less depreciation of the physical property of the City Company, prepared in the same manner in which the engineering department prepared its estimates with reference to the physical property to be sold by the Pacific Company.

Table No. IV shows petitioners' estimate of the "structural value" of the physical property of the City Company and the Railroad Commission's engineering department's estimate of the reproduction cost and of the reproduction cost less depreciation of the same property as of June 30, 1915.



TABLE NO. IV.

ENGINEERING ESTIMATES - PHYSICAL PROPERTY TO BE SOLD BY HOME  
TELEPHONE & TELEGRAPH COMPANY OF SANTA BARBARA, June 30,  
1915.

Accounts	Company	Engineering Department	Difference:	
	Structural	Reproduction	Reproduction	between
	Value	Cost	Cost less	Columns
	1.	2.	Depreciation	Nos. 1 & 3.
:202 Franchises	...	170.00	170.00	170.00*
:207 Right of Way	...	...	...	...
:211 Land	3,971.00	3,969.00	3,969.00	2.00
:212 Buildings	9,500.00	11,025.00	7,764.00	1,736.00
:221 Central Office Telephone Equipment	42,706.00	54,537.17	35,782.50	6,923.50
:222 Other Equipment of Central Office	605.00	754.00	604.00	1.00
:231 Station Apparatus	34,254.00	38,052.94	28,945.29	5,308.71
:232 Station Installations	11,044.00	13,959.00	11,864.00	820.00*
:233 Interior Block Wires	108.00	154.00	108.00	...
:234 Private Branch Exchanges	1,818.00	2,038.89	1,631.11	186.89
:235 Booths and Special Fittings	233.00	308.53	246.82	13.82*
:241 Exchange Pole Lines	61,358.00	77,116.00	53,012.00	8,346.00
:242 Exchange Aerial Cable	69,275.00	97,674.00	67,724.00	1,551.00
:243 Exchange Aerial Wire	57,713.00	59,625.00	40,985.00	16,728.00
:244 Exchange Underground Conduits	8,876.00	7,275.00	5,819.00	3,507.00
:245 Exchange Underground Cable	7,594.00	8,308.00	6,643.00	951.00
:251 Toll Pole Lines	2,148.00	2,409.00	1,494.00	654.00
:253 Toll Aerial Wire	1,950.00	1,943.00	1,457.00	493.00
:261 Office Furniture and Fixtures	850.00	1,063.00	850.00	...
:262 General Shop Equipment	207.00	231.00	207.00	...
:264 General Stable and Garage Equipment	2,739.00	3,435.00	2,747.00	8.00
:265 General Tools and Implements	1,365.00	1,517.00	1,365.00	...
:268 Interest during Construction	1,461.00	...	...	1,461.00
:... Materials and Supplies on Hand for use in California	7,609.00	7,609.00	7,609.00	...
	327,384.00	393,173.53	280,996.72	46,387.28

\* Engineering Department in excess of Company.

The City Company reports from its books a statement of original cost to date of its entire property on April 30, 1916, amounting to \$381,096.34. This amount includes an original payment on April 30, 1904, of \$100,000.00 to Empire Construction Company for the telephone system, including 500 telephones in service, constructed by Empire Construction Company. To the sum of \$279,096.34, being ledger balance of construction account less initial installation and organization expense, the City Company adds 15 per cent for engineering, superintendence, warehousing, office expense and interest during construction, the total amount added being \$41,864.45. The total cost to date on this basis, is reported to be \$422,960.79. The City Company set up no depreciation reserve and its report with reference to book cost undoubtedly includes replacements.

Table No. V shows the revenues and expenses of the City Company during the period April 30, 1910 to December 31, 1915, as reported in Exhibit No. 2 of Home Telephone and Telegraph Companies.

TABLE NO. V.

HOME TELEPHONE & TELEGRAPH COMPANY OF SANTA  
BARBARA - EARNINGS AND EXPENSES APRIL  
30, 1910 to DECEMBER 31, 1915.

Debit Charges:	April 30, 1911	April 30, 1912	Dec.31, 1912	Dec. 31, 1913	Dec. 31, 1914	Dec. 31 1915
Interest	11122.81	11075.63	7715.44	10721.60	10804.58	10817.08
Taxes	3732.85	3364.48	3613.63	4329.06	4296.39	4683.73
Insurance	519.73	1021.31	352.67	1111.46	1453.99	1880.22
Legal Expense	115.75	185.85	112.50	153.70	146.44	155.50
Maintenance	7400.52	8839.14	5983.63	1300.28	20452.78	25293.28
Operation	29481.26	31262.40	20618.37	32378.28	25262.64	25554.55
Special Expense	5.60	295.20	24.80	120.32	000.00	000.00
Salary Account	1225.00	1240.00	915.00	1156.66	000.00	000.00
Tool Account	451.65	359.01	000.00	519.43	587.30	751.31
Uncollect.Accts.	1022.55	769.24	417.80	662.26	786.24	1061.47
Contact Rentals				373.22	268.33	318.41
Misc.Gen. Exp.					402.75	487.92
Rent					260.25	294.00
Supply Expense					831.96	127.13
Directory					220.80	304.95
Appraisal Exp.						6564.55
County Co.Loss in Op- eration					4190.20	4286.08
	<u>55077.72</u>	<u>58412.26</u>	<u>39753.84</u>	<u>64526.27</u>	<u>69964.65</u>	<u>82580.18</u>
Credit Charges:						
Earnings	65716.37	69894.16	49071.38	74998.65	78807.91	83673.17
Collect Old Acct.	209.30	340.05	100.50	45.30	190.09	196.26
Tool Inventory	000.00	000.00	542.10	000.00	000.00	000.00
50% County Profit	780.67	686.66	2208.94	131.29	000.00	000.00
	<u>66706.34</u>	<u>70920.87</u>	<u>51922.92</u>	<u>75175.24</u>	<u>78998.00</u>	<u>83869.43</u>
Debit Charges	<u>55077.72</u>	<u>58412.26</u>	<u>39753.84</u>	<u>64526.27</u>	<u>69964.65</u>	<u>82580.18</u>
Balance for ) Depreciation ) and Net Profits)	11628.62	12508.61	12169.08	10648.97	9033.35	1269.25

The expenditures shown in Table No. V include the sums actually paid by the City Company for interest. As will be observed, no depreciation reserve was set aside. The City Company represents, however, that items which otherwise would have been charged to depreciation reserve were largely charged to the maintenance account. It will also be observed that the returns for the years ending December 31, 1914 and December 31, 1915, include operating losses of the County Company, which company's property is leased to and operated by the City Company for a rental of 50 per cent of the net earnings. It will be observed that the financial showing of the City Company is very much better than that of the Pacific Company during the same period, as shown by Table No. III.

4. HOME TELEPHONE & TELEGRAPH COMPANY OF  
SANTA BARBARA COUNTY.

Home Telephone & Telegraph Company of Santa Barbara County, herein referred to as the County Company, was incorporated on August 28, 1906, with an authorized issue of 2000 shares of capital stock of the par value of \$100.00 per share, being a total authorized issue of \$200,000.00, par value. The entire authorized issue is outstanding. 1995 shares are owned by the City Company and five shares have been issued to five directors.

The County Company has authorized a bonded indebtedness of the face value of \$200,000.00 of first mortgage 5 per cent bonds, dated December 15, 1906, and maturing on December 15, 1936. These bonds are secured by deed of trust dated December 15, 1906, to Title Insurance & Trust Company, as well as by second mortgage of the City Company's property. Of the bonds thus authorized, bonds of the face value of \$150,000.00 are outstanding.

The County Company reports that its only additional indebtedness consists of bills payable amounting to \$15,000.00.

The County Company has exchanges at Guadalupe, Lompoc, Los Alamos, Santa Maria, Santa Ynez and Harris. The exchange at Harris is exclusive. Table No. I shows that on June 30, 1915, the County Company had 1126 telephone stations in its various exchanges.

Table No. VI shows the estimate of the "structural value" of the physical property of the County Company as presented by petitioners and an estimate of the reproduction cost and of the reproduction cost less depreciation of the property, as presented by the Commission's engineering department.

TABLE NO. VI.

ENGINEERING ESTIMATES -- PHYSICAL PROPERTY TO BE SOLD BY  
HOME TELEPHONE & TELEGRAPH COMPANY OF SANTA  
BARBARA COUNTY, JUNE 30, 1915.

<u>A c c o u n t s</u>	<u>Company</u>	<u>Engineering Department</u>		
	<u>Structural</u>	<u>Reproduc-</u>	<u>Reproduction</u>	<u>Difference</u>
	<u>Value</u>	<u>tion</u>	<u>Cost</u>	<u>between</u>
	<u>n</u>	<u>Cost</u>	<u>preciation</u>	<u>Col. &amp; Nos.</u>
	<u>1.</u>	<u>2.</u>	<u>3.</u>	<u>4.</u>
202 Toll Franchises	...	70.00	70.00	70.00*
202 Franchises	...	300.00	300.00	300.00
207 Right of Way - Toll	260.00	260.00	260.00	...
211 Land	...	...	...	...
212 Buildings	...	...	...	...
221 Central Office Telephone Equipment	10,214.00	12,609.00	9,515.00	698.63
222 Other Equipment of Central Offices	328.00	284.00	228.00	...
	11,456.00	12,631.35	9,761.57	1,694.43
231 Station Apparatus				
232 Station Installations	3,129.00	3,998.00	3,399.00	270.00*
235 Booths and Special Fittings	166.00	213.42	164.61	1.39
241 Exchange Pole Lines	39,518.00	56,348.00	40,570.00	1,052.00*
242 Exchange Aerial Cable	7,045.00	9,336.00	6,281.00	764.00
243 Exchange Aerial Wire	43,270.00	44,935.00	30,132.00	13,138.00
244 Exchange Underground Conduits	291.00	287.00	250.00	41.00
245 Exchange Underground Cable	247.00	173.00	142.00	105.00
251 Toll Pole Lines	25,039.00	31,395.00	19,465.00	5,574.00
253 Toll Aerial Wire	13,790.00	13,223.00	9,256.00	4,534.00
261 Office Furniture and Fixtures	556.00	695.00	556.00	...
262 General Shop Equipment	11.00	13.00	11.00	...
263 General Store Equipment	56.00	63.00	56.00	...
264 General Stable and Garage Equipment	1,789.00	2,234.00	1,303.00	486.00
265 General Tools and Implements	396.00	442.00	396.00	...
268 Interest during Construction	769.00	...	...	769.00
... Materials and Supplies on hand for use in California	2,202.00	2,202.00	2,202.00	...
	160,432.00	191,711.95	124,318.55	26,113.45

\*Engineering Department in excess of Company

The County Company reports that the original cost of its property to April 30, 1916, as shown by its books, is the sum of \$153,643.68. This sum includes an item of \$44,819.50 for the initial installation of the system as of March 22, 1907, including 476 telephone stations. The County Company adds an item of \$16,008.16 for engineering, superintendence, warehousing, office expense and interest during construction, making a total of \$169,651.84 as of April 30, 1916. This total undoubtedly includes replacements.

Table No. VII shows the revenues and expenses of the County Company, as reported in Exhibit No. 2 of Home Telephone & Telegraph Companies, for the period from April 30, 1910 to December 31, 1915.

TABLE NO. VII

HOME TELEPHONE & TELEGRAPH COMPANY OF SANTA BARBARA  
COUNTY - EARNINGS AND EXPENSES APRIL 30, 1910  
TO DECEMBER 31, 1915.

Debit Charges:	April 30, 1911	April 30, 1912	Dec. 31, 1912	Dec. 31, 1913	Dec. 31, 1914	Dec. 31, 1915
Interest	8104.81	8351.54	5168.76	8400.00	8400.00	8340.00
Taxes	939.82	957.20	1050.74	1737.10	1599.98	1715.33
Insurance	142.50	87.75	57.93	391.15	654.10	585.60
Legal Expense	000.00	000.00	000.00	000.00	62.76	20.00
Maintenance	2697.36	3981.47	1277.49	3857.10	10372.54	8148.48
Operation	12560.06	14039.92	9245.39	14800.48	10254.06	10068.78
Special Expense	14.20	00.00	000.00	6.63	00.00	00.00
Tool Expense	230.66	209.05	000.00	517.70	901.34	842.36
Uncollect.Accts.	423.68	387.83	321.89	592.50	1328.31	405.21
Contact Rentals				177.92	73.88	73.88
Misc.Gen.Expense					61.15	3.50
Rent					723.50	826.50
Supply Expense					171.10	000.00
Directory Exp.					167.20	180.90
Appraisal Exp.						3282.27
<b>Total</b>	<b>25113.09</b>	<b>28014.76</b>	<b>17122.20</b>	<b>30480.58</b>	<b>34769.92</b>	<b>34492.81</b>
<b>Credit Charges:</b>						
Earnings	25631.14	29377.68	21089.29	30698.48	30468.35	29890.22
Collect.Old Acct.	43.30	10.50	32.63	44.68	111.37	249.97
Tool Inventory	000.00	000.00	418.17	00.00	000.00	000.00
Supply Exp. Cr.	000.00	000.00	000.00	00.00	000.00	66.54
	<b>26674.44</b>	<b>29388.18</b>	<b>21540.09</b>	<b>30743.16</b>	<b>30579.72</b>	<b>30206.73</b>
<b>Debit Charges</b>	<b>25113.09</b>	<b>28014.76</b>	<b>17122.20</b>	<b>30480.58</b>	<b>34769.92</b>	<b>34492.81</b>
Balance for ) Depreciation ) and Net Profits)	1561.35	1373.42	4417.89	262.58	4190.20 Loss	4286.08 Loss

**Note:**

Operated by Home Telephone & Telegraph Company of Santa Barbara which pays to Home Telephone & Telegraph Company of Santa Barbara County 50% of net earnings as rent of property.



It will be observed that the expenditures shown in Table No. VII include the interest paid by the County Company and that no reserve for depreciation was established. Table No. VII shows a loss during the year ending December 31, 1914 of \$4190.20 after the payment of interest, maintenance and operating expenses and a loss during the year ending December 31, 1915, on the same basis, of \$4286.08. The statement for the year ending December 31, 1915 includes an abnormal item of \$3282.27 for appraisal expense.

5. SUNSET TELEPHONE AND TELEGRAPH COMPANY.

It developed at the hearing herein that ~~xxx x accident~~ almost all the property hereinbefore referred to as the Pacific Company's property is owned by Sunset Telephone and Telegraph Company and operated by Pacific Company under lease dated January 2, 1907. In addition to the physical property thus owned and operated, two of the franchises herein under consideration, namely, the franchise granted by Town of Lompoc by Ordinance No. 57, adopted April 17, 1893 and the franchise granted by the City of Santa Barbara by Ordinance No. 293, adopted February 7, 1896, were granted to Sunset Telephone and Telegraph Company and have never been assigned to the Pacific Company.

At the hearing herein, the attention of petitioners was directed to the necessity of taking the appropriate steps to the end that the interest of Sunset Telephone and Telegraph Company in the property to be conveyed to Santa Barbara Company be effectively transferred.

On September 23, 1916, subsequent to the hearing herein, Sunset Telephone and Telegraph Company accordingly filed its petition herein asking for an order authorizing the sale and conveyance to Pacific Company of the Sunset Company's

entire property of every kind and character, in the County of Santa Barbara and in that portion of San Luis Obispo County known as Rancho Guadalupe.

We recommend that this application be granted, subject to the usual conditions.

6. DESIRE FOR CONSOLIDATION.

The statements of earnings and expenses of the three telephone companies during the last five years, as hereinbefore set forth, show clearly why these companies desire to consolidate.

As already shown, the Pacific Company has not even made maintenance and operating expenses from its operations in the territory here under consideration, with the exception of a few hundred dollars during the year 1914.

The City and County Companies have declared no dividends since 1907 or 1908 and have set aside no depreciation reserves. There is urgent demand for additional capital construction, particularly in Santa Barbara and Montecito, but there is no way, under the present conditions, of securing the necessary additional funds except by an assessment on the stockholders, which expedient the companies do not desire to adopt. Mr. E. A. Gilbert, President of the City and County Companies, testified that, in his opinion, this is an opportune time to avoid future duplications.

The telephone subscribers of Santa Barbara County have been urging the consolidation for the reason that such consolidation would eliminate the necessity of paying for two telephones, would result in ability to converse with many more subscribers and would enable all telephone users to avail them-

selves of the long distance service both of the Pacific Company and of the United States Long Distance Telephone and Telegraph Company. The various municipal and county authorities who have heretofore granted franchises to the telephone companies affected have all passed resolutions consenting to the assignment of these franchises to the Santa Barbara Company. The Chamber of Commerce of Santa Barbara and the Commercial Club of Santa Barbara have adopted resolutions favoring the consolidation. A number of prominent citizens appeared at the hearing and testified in favor of the consolidation. No one appeared in opposition. From the evidence herein, we conclude that the overwhelming sentiment in Santa Barbara County is in favor of telephone consolidation, providing, of course, that the interests of the public on such consolidation are protected.

7. PLAN OF CONSOLIDATION, FINANCIAL  
AND PHYSICAL.

In order to effect a consolidation, the petitioners have caused the incorporation of Santa Barbara Telephone Company, herein referred to as the Santa Barbara Company. This corporation was incorporated under the laws of this State on April 6, 1916, for the purpose, among others, of transacting a telephone and telegraph business in the City of Santa Barbara, the County of Santa Barbara and elsewhere in California. The term of incorporation is 50 years. The articles of incorporation authorize the issue of 7000 shares of capital stock of the par value of \$100.00 each, of which shares 6000 shall be preferred stock and 1000 common stock. The holders of preferred stock shall be entitled to receive, when and as declared, from the surplus profits arising from the business of the corporation,

yearly dividends at the rate of 6 per cent per annum. The dividends on the preferred stock shall be cumulative from and after June 1, 1918. When all cumulative dividends on the preferred stock and an 8 per cent dividend on the common stock have been declared and paid, the corporation may, out of any remaining surplus profits, declare an additional dividend at the same rate upon the preferred and the common stock equally. On dissolution of the corporation, the holders of the preferred stock shall be entitled to the amount of unpaid dividends and the full par value of their stock. The articles of incorporation provide that there may be no increase in the amount of common stock authorized. The only increase of capital stock, under the terms of the articles of incorporation, may be preferred stock carrying the same rights and preferences as those provided in the articles of incorporation for preferred stock.

Of the authorized capital stock, the Santa Barbara Company has issued only five shares of common capital stock, one share to each of five directors.

The Santa Barbara Company desires to authorize a bonded indebtedness in the sum of \$700,000.00, face value, of 5 per cent 30-year bonds, in the denominations of \$1000, \$500, \$100, and \$50, to be numbered serially, and to execute to Los Angeles Trust & Savings Bank a mortgage or deed of trust to secure said bonds. A copy of the proposed mortgage or deed of trust is attached to the petition herein as Exhibit F.

Petitioners ask authority to effect a consolidation in the method which we shall now state.

The City Company and the County Company are to convey their entire property, both tangible and intangible, except the right to be a corporation, to the Santa Barbara Company.

The Pacific Company is to convey to the Santa Barbara Company its entire property, both tangible and intangible, in Santa Barbara County ~~xx~~ and in that portion of the County of San Luis Obispo known as Rancho Guadalupe, except its through toll lines and the other excepted property hereinbefore referred to, and described in Petitioners' Exhibit No. 11.

Santa Barbara Company is to issue its securities and to pay cash to the three existing telephone companies as follows:

1. To Pacific Company.

Santa Barbara Company is to issue to Pacific Company in payment for the property to be acquired from said company, preferred stock of the Santa Barbara Company of the par value of \$315,000.00.

2. To City Company.

Santa Barbara Company is to issue to City Company preferred stock of the par value of \$88,000.00 and common stock of the par value of \$66,000.00, and to pay, in addition thereto, the sum of \$16,000.00 in cash. Santa Barbara Company is also to issue to the holders of the \$200,000.00, face value, of outstanding bonds of City Company, the bonds of Santa Barbara Company of the face value of \$169,000.00. The consideration to be paid by Santa Barbara Company will also cover the capital stock of County Company, owned by City Company, which stock is to be sold by City Company to Santa Barbara Company. City Company's deed of trust is to be canceled and the company is to be disincorporated.

3. To County Company.

Santa Barbara Company is to pay to County Company the sum of \$32,500.00 in cash, which money will be used to pay the debts of County Company. Santa Barbara Company is to issue its bonds of the face value of \$127,500.00 to take up the bonds of County Company now outstanding having a face

value of \$150,000.00. County Company's deed of trust is to be canceled and the company is to be disincorporated.

Santa Barbara Company also asks authority to sell its bonds of the face value of \$100,000.00 for 90 per cent of their face value plus accrued interest. The proceeds to the extent of \$90,000.00 are to be used as follows:

To be paid to County Company	\$ 32,500.00
To be paid to City Company	16,000.00
Working capital	<u>41,500.00</u>
Total	\$ 90,000.00

If the petition herein is granted, Santa Barbara Company will have authorized and issued preferred stock, common stock and bonds as follows:

Preferred Stock:

Authorized	\$ 600,000.00
Issued	<u>403,000.00</u>
Remaining in treasury	\$ 197,000.00

Common Stock:

Authorized	\$ 100,000.00
Issued	<u>66,500.00</u>
Remaining in treasury	\$ 33,500.00

Bonds:

Authorized	\$ 700,000.00
Issued	<u>396,500.00</u>
Remaining in treasury	\$ 303,500.00

Petitioners expect to create a corporation under the laws of the State of Oregon to act as a holding company for the stock of Santa Barbara Company. The Oregon corporation is to issue its stock, one share of common stock for each share of common stock issued by Santa Barbara Company and one share of preferred stock for each share of preferred stock issued by Santa Barbara Company. The preferred stock of the Oregon cor-

poration is to be non-voting. The result of this transaction will be that The Pacific Telephone and Telegraph Company will, through stock ownership, be the real owner of the consolidated property, although the voting control will lie in Mr. George B. Bush, the organizer of the Santa Barbara Company, and in associates who are to be residents of Santa Barbara County. Petitioners claim that these arrangements are necessary in order to comply with certain requirements of the United States Department of Justice growing out of certain prosecutions instituted by the Federal Government against American Telephone and Telegraph Company and other companies of what is known as the Bell System. The requirements of the Federal Government and the representations of American Telephone and Telegraph Company in connection therewith are contained in letter dated December 19, 1913 from Mr. N. C. Kingsbury, Vice-President of the American Telephone and Telegraph Company, to the Attorney General at Washington, a copy of which letter is on file in these proceedings. It is unnecessary to advert to these matters further herein, for the reason that the Railroad Commission of California clearly has the authority and the jurisdiction to make the orders which are requested herein and that if the Federal Government has the lawful right to insist that its consent must also be secured, on which point we do not at this time express an opinion, that is a matter foreign to this proceeding.

Mr. George B. Bush, organizer and president of Santa Barbara Company, testified that Santa Barbara Company will give to its subscribers long distance service, in accordance with the desires of the subscribers, either over the lines

of Pacific Company or of United States Long Distance Telephone and Telegraph Company.

Referring now to the physical means by which the consolidation is to be effected, Petitioners' Exhibit No. 15 shows that petitioners intend to consolidate their property in such a manner as to give service between all subscribers of each consolidated exchange and to give to each subscriber access to all toll lines. This result is to be accomplished by means of trunk lines between the existing central offices in an exchange or by connecting all subscribers' lines and the toll lines to one central office. Mr. Bush testified that the duplicate instruments owned by Pacific Company are to be eliminated. The telephone instruments used by all three telephone companies are of substantially the same type. No automatic instruments have been placed in service by any of the three companies.

The physical alterations contemplated by the Santa Barbara Company as shown by Petitioners' Exhibit No. 15, are substantially as follows:

1. Santa Barbara Exchange.

The central office of Pacific Company and of City Company are to be connected by trunk lines. Additions will be made to both switchboards to handle the increased traffic.

2. Santa Maria Exchange.

The subscribers of County Company will be connected to the existing switchboard of Pacific Company. Additions will be made to Pacific Company's switchboard and additional serial cables will be installed.

3. Lompoc Exchange.

Stations now connected to Pacific Company's switchboard will be transferred and connected to County Company's switchboard after necessary additions have been made



thereto. The present toll cabinet in County Company's office in Santa Maria will be installed in County Company's Lompoc office.

4. Montecito Exchange.

The County Company's switchboard released at Santa Maria will be added to City Company's equipment at Montecito and Pacific Company's subscribers will be transferred thereto.

5. Carpinteria Exchange.

Subscribers now connected with City Company's magneto switchboard will be transferred to Pacific Company's switchboard after necessary additions thereto have been made. All subscribers of City Company will then be provided with common battery service.

6. Goleta Exchange.

After small additions have been made to City Company's switchboard, all subscribers of Pacific Company in the Goleta District now connected with the Santa Barbara switchboard will be transferred and connected to City Company's office in Goleta.

7. Guadalupe Exchange.

Pacific Company's switchboard will be taken out and County Company's switchboard will be enlarged and installed in the present location of Pacific Company's switchboard and Pacific Company's subscribers will be connected to County Company's switchboard.

8. Los Alamos Exchange.

Slight additions will be made to County Company's

switchboard and all subscribers will then be transferred to this switchboard.

9. Los Olivos Exchange.

Pacific Company's subscribers will be connected to County Company's switchboard at Santa Ynez and the operation of the switchboard at Los Olivos will be discontinued.

10. Santa Ynez Exchange.

No changes will be made other than those indicated with reference to the Los Olivos Exchange.

No changes will be necessary in the Gaviota, Las Cruces and Refugio Exchanges, these having been exclusive exchanges of Pacific Company.

Petitioners report that the approximate cost of making the indicated changes will be \$24,685.00.

8. FRANCHISES.

The plan of consolidation as set out in the petition herein, provides that franchises shall be conveyed to Santa Barbara Company as follows:

(1) By City Company - all of its franchises, including specifically:

(a) Ordinance No. 304, County of Santa Barbara, to Home Telephone & Telegraph Company of Santa Barbara, adopted April 3, 1905, effective May 1, 1905.

(b) Ordinance No. 444, City of Santa Barbara, to F. F. Graves and assigns, adopted August 20, 1903, effective after first publication. The franchise rights under this ordinance were assigned by Graves to City Company on May 10, 1904.

(c) City Company's rights under Section 536, Civil Code of California, as amended in 1905.

(d) City Company's rights under Section 19 of Article XI of the Constitution of California, as amended in 1911.

(e) City Company's rights under the Act of Congress of July 2, 1866.

(2) By County Company- all its franchises, including specifically:

(a) Ordinance No. 303, County of Santa Barbara, to Edward F. R. Vail and assigns, adopted April 3, 1905, effective May 1, 1905. The rights under this ordinance were assigned by the grantee to George S. Edwards on December 1, 1906, and by Mr. Edwards to County Company on March 18, 1907.

(b) Ordinance No. 20, City of Santa Maria, to Home Telephone & Telegraph Company of Santa Barbara County, adopted March 18, 1907, effective after publication.

(c) Ordinance No. 126, Town of Lompoc, to Home Telephone & Telegraph Company of Santa Barbara County, approved February 11, 1907, effective after publication.

(d) City Company's rights under Section 536, Civil Code of California, as amended in 1905.

(e) City Company's rights under Section 19 of Article XI of the Constitution of California as amended in 1911.

(f) City Company's rights under the Act of Congress of July 2, 1866.

(3) By Pacific Company- those three certain franchises described as follows:

(a) Ordinance No. 41, City of Santa Maria

to the Pacific Telephone and Telegraph Company, adopted August 19, 1912, effective 30 days after approval.

(b) Ordinance No. 57, Town of Lompoc, to Sunset Telephone and Telegraph Company and assigns, approved April 17, 1893, no effective date specified.

(c) Ordinance No. 293, City of Santa Barbara, to Sunset Telephone and Telegraph Company, its successors and assigns, approved February 7, 1896, effective after publication.

In so far as necessary, the consent of all the public authorities to the transfer of these franchises has been granted.

We desire to draw attention to the following matters in connection with franchises in this proceeding:

1. The proposed deed from Pacific Company to Santa Barbara Company, being Petitioners' Exhibit No. 11, does not include, in its reference to specific franchises, Ordinance No. 725 of the City of Santa Barbara, adopted on March 7, 1912, and effective after publication. This ordinance undertakes to grant to The Pacific Telephone and Telegraph Company a renewal and extension for a term of 25 years of the franchise granted by the City of Santa Barbara to Sunset Telephone and Telegraph Company by Ordinance No. 293, approved February 7, 1896. The term of the franchise granted by Ordinance No. 293 was 10 years only and the rights of the grantee thereunder expired in 1906. The plan of consolidation must be modified ~~in~~ so that Santa Barbara Company secures all rights granted by said Ordinance No. 725 of the City of Santa Barbara, except in so far as through toll service may be affected.

2. Ordinance No. 725 of the City of Santa Barbara and Ordinance No. 41 of the City of Santa Maria both became effective subsequent to March 23, 1912, the effective date of the Public Utilities Act. Nevertheless, the Pacific Company failed up to a time subsequent to the hearing herein, to apply to the Railroad Commission for a declaration that public convenience and necessity require the exercise by Pacific Company of the rights and privileges granted by said Ordinances,

as provided by Section 50 of the Public Utilities Act. The representatives of Pacific Company at the hearing stated that they had been of the opinion that the Railroad Commission's consent to the exercise of these franchise rights was not necessary. We unhesitatingly express the conviction that the Railroad Commission's consent has been and is necessary and that without such consent no rights under these franchises can legally be exercised. Under the provisions of Section 50 of the Public Utilities Act and the decision of the Supreme Court of California in the Oro Electric case, 169 Cal. 466, we are of the opinion that there can be no reasonable doubt in this matter.

The presiding commissioners having clearly expressed their opinion on this matter at the hearing herein, Pacific Company, on September 23, 1916, filed its petition in Application No. 2557 asking for a certificate of public convenience and necessity in connection with the Santa Barbara franchise and a similar petition in Application No. 2558 in connection with the Santa Maria franchise. The decisions in these two applications are this day being rendered.

3. The proposed deed from Pacific Company to Santa Barbara Company does not transfer to Santa Barbara Company any rights under Section 536 of the Civil Code of California, Section 19 of Article XI of the Constitution of California, or the Act of Congress of July 2, 1866, if any such rights exist, although the deeds both from City Company and from County Company purport to convey such rights in each instance. The representatives of Pacific Company at the hearing stated that the company has no rights under the Act of Congress of July 2, 1866. Attention was not directed to any rights under Section 19 of Article XI of the Constitution of California. Pacific Company, however, does claim rights under Section 536 of the Civil Code of California. The plan of consolidation must be modified so that Santa Barbara Company is protected against

any and all rights of Pacific Company under said Section 536, except in so far as necessary to enable Pacific Company to continue its through toll business in the territory affected.

4. As already indicated, the grantee in Ordinance No. 293 of the City of Santa Barbara, approved April 27, 1896, and in Ordinance No. 57 of the Town of Lompoc, approved April 17, 1893, is Sunset Telephone and Telegraph Company, which company was not a party to these proceedings at the time of the hearing herein. This defect, however, was cured by the filing by Sunset Telephone and Telegraph Company of the supplemental and intervening petition hereinbefore referred to.

5. The order herein will provide, as is usual in proceedings of this character, that it shall not become effective until the Railroad Commission has issued a supplemental order reciting that Santa Barbara Company has filed with the Railroad Commission a stipulation, duly authorized by its Board of Directors, agreeing, for Santa Barbara Company, its successors and assigns, that they will never claim for the franchise rights to be conveyed to the company, in any proceeding of any character before the Railroad Commission or any other public authority, any value in excess of the amounts paid therefor to the public authorities originally granting the same, by the grantee thereof, which amounts shall be specified in the stipulation.

9. CONDITIONS AFTER CONSOLIDATION - BALANCE SHEET  
SERVICE, RATES, REVENUES AND EXPENSES.

In Petitioners' Exhibit No. 1, the petitioners herein allege that the assets and liabilities of Santa Barbara Company after consolidation will be, in effect, as follows:

ASSETS:

Property from Pacific Company	\$341,702.96
Property from City Company	327,383.97
Property from County Company	160,434.39
Cash from sale of bonds	<u>41,500.00</u>
Total property and cash	\$871,021.32

LIABILITIES:

Preferred stock issued	\$403,000.00
Common stock issued	66,500.00
Bonds issued	396,500.00
Excess of property over securities	<u>5,021.32</u>
Total	\$871,021.32

From this set up it would appear that Santa Barbara Company will be the owner of property which has a "structural value" of \$5,021.32 in excess of the face value of the outstanding securities. To this amount must be added the net additions to the property of Pacific Company, City Company and County Company subsequent to June 30, 1915, testified to be as follows:

Pacific Company, net additions to July 31, 1916,	1,691.06
City Company, net additions to July 31, 1916,	11,502.63
County Company, net additions to July 31, 1916,	<u>1,102.75</u>
Total net additions to July 31, 1916,	\$14,296.44

On the basis of the estimated cost to reproduce new less depreciation of the physical properties, as reported by the Railroad Commission's engineering department in Railroad Commission's Exhibit No. 1, the assets of Santa Barbara Company would be as follows:

Property from Pacific Company	\$277,745.16
Property from City Company	280,996.72
Property from County Company	134,318.55
Cash from sale of bonds	<u>41,500.00</u>
Total Assets	\$734,560.43

The amount of stock and bonds which Santa Barbara Company proposes to issue, being \$866,000.00, is \$131,439.57, face value, in excess of said sum of \$734,560.43.

In passing on the amount of securities which Santa Barbara Company may reasonably be authorized to issue for the properties which it is to acquire, consideration must also be given to the fact that a considerable amount of duplication exists in the properties which are to be acquired, particularly in the matter of poles. While petitioners report that the property of City Company and of County Company which will be rendered inoperative by reason of the consolidation has a structural value of only \$6,554.38, with a net salvage value of \$1,483.46 and that the property of Pacific Company which is not to be sold, exclusive of toll lines, has a "structural value" of only \$15,083.91, the testimony in this proceeding as well as a casual inspection of the existing properties in the City of Santa Barbara show clearly that there is a much larger amount of duplication in the properties to be acquired by Santa Barbara Company than these figures would indicate. In fact, the total duplication reported by petitioners under the head of poles, would seem to be only an item of \$133.79 in the Carpinteria Exchange. Petitioners' own testimony that it expects as soon as possible to remove the duplicate poles from the streets of Santa Barbara and the other towns affected, shows clearly the real situation. In other words, if a single telephone system were being installed to do the work which is now being done by the systems of the three existing telephone companies, a very material saving in the number and cost of poles as well as certain other items of property would unquestionably be made. We cannot agree that in determining the amount of securities which shall be authorized, the amount should be issued against the "structural value" of the combined properties of Pacific Company, City Company, and County Company, without reference to existing duplication of



property. If losses arise from this situation, they should be borne by the utilities which have created the duplication and not by the public.

Petitioners lay stress on the point that after consolidation each telephone subscriber in Santa Barbara County will be able to avail himself of an enlarged telephone service. This result will undoubtedly follow. Each telephone subscriber will not merely be able to converse with an increased number of local subscribers, but also over the long distance lines both of Pacific Company and of United States Long Distance Telephone and Telegraph Company.

In the matter of rates, attention has already been directed to the fact that some of the rates established by one or more of petitioners, as the result of the competition between the petitioners, have been unduly low. Petitioners have submitted to the Railroad Commission in Petitioners' Exhibit No. 19, a statement of the rates which Santa Barbara Company desires to charge. Table No. VIII, being Petitioners' Exhibit No. 19a, shows, in summary form, the rates now being charged by City Company and County Company, referred to together in the table as "Home Company", the rates now being charged by Pacific Company and the rates proposed by Santa Barbara Company for the classes of service therein specified, being unmeasured business and residence service.

Table No. VIII.

PRESENT RATES OF HOME TELEPHONE & TELEGRAPH COMPANY OF SANTA BARBARA, HOME TELEPHONE & TELEGRAPH COMPANY OF SANTA BARBARA COUNTY, AND THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY IN SANTA BARBARA COUNTY, AND PROPOSED RATES OF SANTA BARBARA TELEPHONE COMPANY.

BUSINESS SERVICE.

RESIDENCE SERVICE

Exchanges (a)	Total Combined Stations 1-1-16	Rate Schedule						Extension (b)	Extension					
			1-Party	2-Party	4-Party	Suburban	1-Party		2-Party	4-Party	Suburban	Without Bell	With Bell	
Carpinteria	216	Home Co.	\$2.00*	-	\$1.25*	-	\$1.00	\$2.00*	-	\$1.25*	-	\$1.60	\$1.00	
		Pacific Co. (c)	3.00	\$2.50	-	\$2.00	1.00	2.00	\$1.50	1.50	\$1.50	.65**		
		Proposed	2.50*	2.00*	-	3.00*	1.00	2.00*	1.75*	1.50*	2.50*	.50*	.65**	
Caviota	4	Home Co.	(Not served by Home Company)					-	1.50*	1.25*	1.00*	-	1.00	
		Pacific Co.	2.00*	1.50*	-	-	1.00	2.00*	1.75*	1.50*	2.50*	.50*	.65**	
		Proposed	2.50*	2.00*	-	3.00*	1.00	-	-	-	-	-	-	
Goleta	152	Home Co.	3.00*	2.50*	2.00*	-	-	3.00*	2.50*	2.00*	-	-	-	
		Pacific Co.	(Served from Santa Barbara)					-	2.25*	1.75*	1.50*	2.50*	.50*	.65**
		Proposed	3.00*	2.50*	-	3.00*	1.00	-	-	-	-	-	-	
Guadalupe	89	Home Co. (d)	-	-	1.50*	-	1.00	-	-	1.50*	-	.60	1.00	
		Pacific Co.	2.00*	1.50*	-	2.50*	1.00	1.50*	1.25*	1.00*	2.00*	1.00	1.00	
		Proposed	2.50*	2.00*	-	3.00*	1.00	2.00*	1.75*	1.50*	2.50*	.50*	.65**	
Las Cruces	2	Home Co.	(Not served by Home Co.)					-	-	-	-	-	-	
		Pacific Co.	(No rates quoted for these classes of service)					-	2.00*	1.75*	1.50*	2.50*	.50*	.65**
		Proposed	2.50*	2.00*	-	3.00*	1.00	-	-	-	-	-	-	
Lompoc	627	Home Co.	2.00	1.50*	-	1.50* to 2.50*	1.00	2.00*	1.50*	-	1.50* to 2.50*	.60	1.00	
		Pacific Co.	2.25*	1.75*	-	1.50*	1.00	1.00*	.75*	-	1.50*	.50*	.65**	
		Proposed	2.50*	2.00*	-	3.00*	1.00	2.00*	1.75*	1.50*	2.50*	.50*	.65**	
Los Alamos	56	Home Co.	2.50*	-	1.50*	2.00* to 3.50*	1.00	2.00*	-	1.50*	2.00* to 3.50*	.60	1.00	
		Pacific Co.	2.00*	1.50*	-	2.50*	1.00	1.50*	1.25*	1.00*	2.50*	1.00	1.00	
		Proposed	2.50*	2.00*	-	3.00*	1.00	2.00*	1.75*	1.50*	2.50*	.50*	.65**	
Los Olivos	19	Home Co.	(Served from Santa Ynez)					-	1.50*	1.25*	1.00*	2.50*	1.00	1.00
		Pacific Co.	2.00*	1.50*	-	2.50*	1.00	-	-	-	-	-	-	
		Proposed	(To be served from Santa Ynez)					-	-	-	-	-	-	-
Montecito	476	Home Co.	2.75	-	-	-	1.00	2.75	-	1.75	-	.60	1.00	
		Pacific Co.	3.00	2.25	-	2.00*	1.00	2.00	1.50	-	1.50*	.50*	.65**	
		Proposed	3.00*	2.50*	-	3.00*	1.00	2.25*	1.75*	1.50*	2.50*	.50*	.65**	
Refugio	2	Home Co.	(Not served by Home Company)					-	1.50*	1.25*	1.00*	-	1.00	1.00
		Pacific Co.	2.00*	1.50*	-	3.00*	1.00	2.00*	1.75*	1.50*	2.50*	.50*	.65**	
		Proposed	2.50*	2.00*	-	-	-	-	-	-	-	-	-	
Santa Barbara	5153	Home Co.	3.00	2.25	-	-	1.00	2.00*	1.50*	-	-	.60	1.00	
		Pacific Co.	3.00	2.50	-	1.50*	1.00	1.00	.75	-	1.50*	.50	.50	
		Proposed	3.00*	2.50*	-	3.00*	1.00	2.25*	1.75*	1.50*	2.50*	.50*	.65**	
Santa Maria	846	Home Co.	2.50*	2.00*	-	\$1.50* to 2.50*	1.00	2.00*	1.50*	-	1.50* to 2.50*	.60	1.00	
		Pacific Co.	2.50	2.00*	-	2.00* to 2.50*	1.00	2.00	1.50	-	2.00*	.50	.50	
		Proposed	2.50*	2.00*	-	3.00*	1.00	2.00*	1.75*	1.50*	2.50*	.50*	.65**	
Santa Ynez	98	Home Co.	2.50*	-	1.50*	2.00* to 3.50*	1.00	2.00*	-	1.50*	2.00* to 3.50*	.60	1.00	
		Pacific Co.	(Not served by Pacific Company)					-	2.00*	1.75*	1.50*	2.50*	.50*	.65**
		Proposed (e)	2.50*	2.00*	-	3.00*	1.00	-	-	-	-	-	-	

\* 25¢ per month additional for desk set equipment.

\*\* 35¢ per month additional for desk set equipment.

(a) For primary areas in which base rates apply see maps showing present and proposed primary rate areas.

(b) The Home Company furnishes an extension set without bell at 60¢ per month.

(c) 4-Party residence service available between one and two mile radius.

Table No. VIII shows that in certain instances the rates are to remain as heretofore and that in other instances, the rates are to be increased.

Table No. IX, being Petitioners' Exhibit No. 19-b, shows the effect of the proposed rates, in connection with the elimination of duplicate stations, as estimated by petitioners for the first year following the proposed consolidation.

TABLE NO. IX.

GROSS LOCAL EXCHANGE REVENUE, SANTA BARBARA COUNTY, PRIOR TO CONSOLIDATION UNDER EXISTING RATES AND SUBSEQUENT  
TO CONSOLIDATION UNDER PROPOSED RATES

EXCHANGES	UNDER PRESENT RATES			YEAR SUCCEEDING CONSOLIDATION		UNDER PROPOSED RATES	
	PRIOR TO CONSOLIDATION			YEAR SUCCEEDING CONSOLIDATION		YEAR SUCCEEDING CONSOLIDATION	
	(Year 1915)			(ESTIMATED)		(ESTIMATED)	
	Pacific Company	Home Company	Both Companies	Total for Santa Barbara Tel. Co.	Due to Elimination of Duplications	Total for Santa Barbara Company	Increase or Decrease
Carpenteria	\$1,589.40	\$2,777.44	\$4,366.84	\$3,598.84	\$ 768.00	\$3,903.04	\$ 304.20
Gaviota*	11.40	----	11.40	11.40	----	15.00	3.60
Goleta	(a)	3,742.52	3,742.52	3,742.52	----	2,893.52	849.00 #
Guadalupe	851.78	1,367.22	2,219.00	1,812.00	407.00	2,063.40	251.40
Las Cruces*	6.00	----	6.00	6.00	----	15.00	9.00
Lompoc	3,901.48	6,992.76	10,894.24	9,523.56	1,370.68	11,904.96	2,381.40
Los Almos	488.85	624.02	1,112.87	883.87	229.00	820.87	63.00 #
Los Olivos	213.93	(b)	213.93	(c)	(c)	(c)	(c)
Montecito	1,474.28	9,340.18	10,814.46	9,997.46	817.00	9,595.96	401.50 #
Refugio*	2.40	----	2.40	2.40	----	15.00	12.60
Santa Barbara	27,874.60	64,466.07	92,340.67	78,336.67	14,004.00	99,004.87	20,668.20
Santa Maria	11,052.52	11,462.51	22,515.03	17,055.15	5,459.88	17,326.57	271.42
Santa Ynez	----	2,402.96	2,402.96	2,498.59	118.30	2,427.19	71.40 #
TOTALS	\$47,466.64	103,175.68	150,642.32	127,468.46	23,173.86	149,985.38	22,516.92

\* Financial statement not available. Revenue computed from classification of stations in service December 31, 1915.

# Deficit

(a) Included in Santa Barbara.

(b) Included in Santa Ynez.

(c) Included in figures for Santa Ynez as it is proposed to discontinue the Pacific Company exchange at Los Olivos.

As will be observed, Table No. IX shows that the total gross revenue of the three existing companies from their local exchange business during the year 1915, was \$150,642.32; that after consolidation is effected, there will be a loss of \$23,173.86 due to the elimination of duplicate stations; that if the rates proposed by Santa Barbara Company are authorized, the increases in rates will result in an increased gross revenue of \$22,516.92; and that the net result of the elimination of duplicate stations and of the proposed increases in rates will be a gross revenue of \$149,985.38 as contrasted with an actual combined revenue of \$150,642.32 in the year 1915.

We believe that Santa Barbara Company should be authorized to charge reasonable rates for the classes of service which it intends to give, even though as a result of the severe competition heretofore existing certain of the existing rates are lower than those authorized. It occurs to us that if the existing telephone companies, instead of consolidating, should ask the Railroad Commission to increase their rates, the Commission would be obliged to authorize some increases, in any event. We are of the opinion that Santa Barbara Company may be authorized to charge such rates as are just and reasonable rates, having in mind the rates being charged in communities having the number of subscribers which Santa Barbara Company will have in its various exchanges, under telephonic conditions as similar as possible to those which exist in the territory here under consideration, assuming that service is rendered by a single telephone company and not by two competing companies. And we are further of the opinion that the amount of securities which Santa Barbara Company should be authorized to issue should not exceed such securities as are reasonable in view of the net revenue which can reason-

ably be expected from rates which are normal under a single telephone system not having the duplications which exist in the property of the three existing telephone companies.

In order to ascertain whether the rates proposed by Santa Barbara Company are normal and reasonable rates, we directed the Railroad Commission's telephone department to make a careful comparison between the rates proposed by Santa Barbara Company for its various exchanges with the rates prevailing for similar classes of service in other sections of California. The exchanges chosen for the comparison were as nearly alike the various exchanges to be operated by Santa Barbara Company, in number of subscribers and from a telephonic point of view, as possible. The exchanges selected were exchanges operated by a single telephone company, generally Pacific Company, without any of the duplication which will exist in the consolidated property of Santa Barbara Company. On the basis of such a comparison, (with minor exceptions) the rates proposed by Santa Barbara Company are reasonable rates to be charged by a single, non-duplicating, substitutional system doing the local exchange work heretofore done by the three existing telephone companies. It must be clearly understood, however, that this conclusion is based solely on comparison with rates now in effect in other comparable portions of California, this being the only basis at present available to the Railroad Commission. We are convinced that the claim of petitioners that the rates now proposed "are far below what a commercial schedule of rates should be" is directly contrary to the facts, if any reliance is to be placed on rates voluntarily established and long in effect for similar classes of service in other comparable sections of California.

We recommend that Santa Barbara Company be authorized to establish, for the present and until the further order of the Railroad Commission the proposed rates, provided that the conditions in the order herein with reference to the proposed consolidation are complied with.

Santa Barbara Company will continue the same free switching service between the various exchanges in Santa Barbara County which has heretofore been in effect.

In response to the Railroad Commission's request that petitioners file a statement of estimated earnings and expenses of Santa Barbara Company subsequent to the proposed consolidation, petitioners filed their Exhibit No. 14-b, which appears in Table No. X.

TABLE NO. X

SANTA BARBARA TELEPHONE COMPANY -- ESTIMATED  
ANNUAL EARNINGS AND EXPENSES FROM CONSOLI-  
DATED PROPERTY, BASED ON CONTINUATION OF  
EXISTING RATES AND CLASSES OF SERVICE.

OPERATING REVENUES:

Exchange Service Revenue	\$127,468.46
Toll Service Revenue	27,354.73
Miscel. Operating Revenue	<u>1,796.83</u>
<u>TOTAL</u>	<u>\$156,620.02</u>

DEDUCTIONS:

Telephone Operating Expenses -

Ordinary Repairs	\$26,915.10
Station Removals & Changes	<u>11,798.40</u>
Total Current Maintenance	\$38,713.50
Traffic Expense	36,501.30
Commercial Expense	22,122.00
General Expense	<u>11,061.00</u>
	\$108,397.80

Other Deductions,

Uncollectible	1,696.02
Taxes	9,143.76
Rents of Telephone Offices	1,320.00
" " Contacts	<u>797.79</u>
	12,957.57
<u>Total Deductions,</u>	<u>\$121,355.37</u>

BALANCE

	<u>\$35,264.65</u>
Bond Interest	\$19,825.00
Available for Depreciation	\$15,439.65



The testimony herein shows that if the rates proposed by Santa Barbara Company are authorized, petitioners anticipate an additional revenue from exchange service amounting to \$22,516.92. Furthermore, Table No. X gives no consideration to normal increased business, either as to exchange service or toll service. The statement also fails to make certain necessary deductions under the head of station removals and changes. We have made the necessary changes in Table No. X and have also estimated a tentative amount for depreciation annuity. Table No. XI is Table No. X thus revised.

TABLE NO. XI.

SANTA BARBARA TELEPHONE COMPANY--REVISION BY RAILROAD  
COMMISSION OF ESTIMATED ANNUAL EARNINGS AND EX-  
PENSES FROM CONSOLIDATED PROPERTY, BASED ON  
RATES AND CLASSES OF SERVICE PROPOSED  
BY SANTA BARBARA TELEPHONE  
COMPANY.

OPERATING REVENUES

Exchange Service Revenue	\$ 152,464.40
Toll Service Revenue	31,457.94
Miscellaneous Operating Revenue	<u>1,796.83</u>
Total	\$ 185,719.17

DEDUCTIONS:

Telephone Operating Expenses:

Ordinary Repairs	\$26,915.10	
Station Removals & Changes	<u>10,718.69</u>	
Total Current Maintenance	37,633.79	
Traffic Expense	36,501.30	
Commercial Expense	22,122.00	
General Expense	11,061.00	
Uncollectible	1,695.02	
Taxes	9,571.59	
Rent of Tel. Offices	1,320.00	
" " Contracts	<u>797.79</u>	<u>120,703.49</u>
		\$ 65,015.68

BALANCE

Bond Interest	19,825.00	
Depreciation	38,118.32	
Available for Dividends	<u>7,072.36</u>	\$ 65,015.68

It will be observed from Table No. XI that on the basis of the estimates therein contained, there will be available the sum of \$19,825.00 for bond interest, being interest at the rate of 5 per cent on the total bonds which Santa Barbara Company desires to issue at the present time, \$38,118.32 for depreciation and \$7,072.36 for dividends. The sum of \$38,118.32 is tentative only, and may be somewhat high.

We desire to draw particular attention to the item for dividends. The sum of \$7,072.36 will pay dividends at the rate of 6 per cent per annum on stock of the par value of only \$117,872.67. Petitioners herein are asking an order authorizing the issue by Santa Barbara Company of preferred stock of the par value of \$403,000.00 and common stock of the par value of \$66,500.00. The very fact that the articles of incorporation of Santa Barbara Company provide that no dividends shall be paid on preferred stock prior to June 30, 1918, shows clearly that it is intended that dividends shall be paid subsequent to that date. Purchasers of cumulative preferred stock generally expect dividends. Mr. Bush testified that the expenses of Santa Barbara Company will hereafter increase at least as much if not more than proportionately with the amount of increased business, so that we cannot expect, on the basis of this testimony, any material improvement of the financial condition of Santa Barbara Company over the condition existing at the very beginning of the company's business, unless there is hereafter a further substantial increase in rates.

Mr. Bush testified frankly that although Santa Barbara Company will be satisfied for the present with the rates which the company asks the Railroad Commission to authorize, the company contemplates the probable necessity of coming to the Railroad Commission within two years or thereabouts and asking a further increase in rates, if it is to be able to

meet the interest and dividend payments on the securities which petitioners are now asking the Railroad Commission to authorize. In view of this situation, the interests of the public in Santa Barbara County imperatively require that the Railroad Commission do not authorize an issue of securities in excess of such amount as is reasonable under the conditions which will prevail in Santa Barbars County at the time the consolidation is authorized, if authority therefor be granted.

Subsequent to the hearing herein, Mr Bush transmitted, with letter dated September 18, 1916, a revised statement of operating revenues and expenses. The letter accompanying this statement states that there has already been a substantial increase in the number of telephones in Santa Barbara County in 1916, as well as an increase in the amount of toll business handled by both long distance telephone companies in Santa Barbara County. Mr. Bush expresses the belief that this increase will be further augmented by the fact that all subscribers will be furnished access to the toll lines both of Pacific Company and of United States Long Distance Telephone and Telegraph Company.

The revised statement thus submitted by Mr. Bush appears as Table No. XII.

TABLE NO. XII.

SANTA BARBARA TELEPHONE COMPANY--REVISION BY PETITIONERS  
OF ESTIMATED ANNUAL EARNINGS AND EXPENSES FROM  
CONSOLIDATED PROPERTY BASED ON RATES AND  
CLASSES OF SERVICE PROPOSED BY SANTA  
BARBARA TELEPHONE COMPANY AND  
ESTIMATED INCREASES IN  
TOLL REVENUES.

OPERATING REVENUES

Exchange Service Revenue	\$155,468.62
Toll Service Revenue	34,026.63
Miscel. Operating Revenue	1,844.32
Total Revenue	<u>\$191,329.57</u>

DEDUCTIONS

Ordinary Repairs	\$26,641.24	
Station Removals		
and Changes	<u>12,228.80</u>	
Total Current Maintenance		\$38,870.04
Traffic Expense		37,714.49
Commercial Expense		22,455.15
General Expense		<u>11,061.00</u>
		\$110,100.68

OTHER DEDUCTIONS

Uncollectible	\$1,757.89
Taxes	12,226.82
Rents of Telephone Offices	1,320.00
Rents of Contracts	<u>797.79</u>
	\$ 16,102.50

Total Deductions \$ 126,223.18

BALANCE FOR DEPRECIATION AND INTEREST 65,106.39

Deduct Interest 19,825.00

Balance for Depreciation and Dividends -----\$ 45,281.39

If the amount shown in Table No. XI for depreciation, being the sum of \$38,118.32, is subtracted from the balance of \$45,281.39, for depreciation and net profits shown in Table No. XII, there will remain available for dividends the sum of \$7,163.07, which is almost identically the sum shown on Table No. XI and estimated by the Railroad Commission prior to the receipt of the letter from Mr. Bush, dated September 18, 1916.

We are satisfied from the evidence herein that Santa Barbara Company will not be able, under such rates as the Railroad Commission may reasonably and fairly authorize, to meet the interest payments on its proposed bond issue and also the dividends on the proposed preferred and common capital stock, nor even any considerable portion of the dividends on the preferred stock alone. We are satisfied that the amount of capital stock to be issued by Santa Barbara Company should be only such amount as now appears to be reasonable and that the amount asked for by petitioners should be materially reduced.

We draw attention to the fact that if rates could be increased sufficiently to enable Santa Barbara Company to pay the dividends on the preferred stock to be issued to Pacific Company, the result would be that after two years Pacific Company would receive each year, free and clear, dividends of \$18,900.00 from property which with the exception of a few hundred dollars in 1914 has not, during the last five years, paid even maintenance and operating expenses. In other words, the mere fact of consolidation would convert a hopelessly losing venture into one yielding a handsome profit to Pacific Company.

While not at this time indicating the exact amount of capital stock which the Railroad Commission will authorize Santa Barbara Company to issue, the order herein will contain

a condition to the effect that the consolidation cannot be effected until the amount and character of the capital stock to be issued by Santa Barbara Company has been satisfactorily adjusted by petitioners.

We have here a proceeding in which the telephone companies/<sup>which</sup> have been competing with one another, as well as the public in the territory affected, are agreed in desiring a consolidation of the existing telephone properties. That the service, both local and long distance, will be extended is clear. The rates which we are authorizing seem to be just and reasonable, on the facts now at our command, for the service to be performed. The amount and character of securities to be issued by Santa Barbara Company must be made reasonable before the consolidation can become effective, so that the rate payers of the future will not be burdened by reason of excessive interest and dividend payments anticipated by the parties from an excessive amount of securities now authorized.

No one has opposed the proposed consolidation.

The only argument which occurs to us against the proposed consolidation is the fear that after competition has been eliminated, Santa Barbara Company may possibly become remiss in its duty to the public, as was the case with Sunset Telephone and Telegraph Company prior to the entry of City Company and County Company into the field. Quite generally, prior to the construction of the so-called "Home" telephone companies in this State, the public did not receive from the existing telephone monopoly the service which the public had a right to demand. At that time, however, the State had not established a state commission with power to supervise and regulate telephone utilities in their rates, service, extensions and finances.

The fact that a consolidated telephone company securing a monopoly in Santa Barbara County may hereafter be-

come remiss in its duty to the public is not, in our opinion, sufficient reason for refusing to authorize a consolidation which ought to result beneficially to the public and which is desired by the communities affected.

In the last analysis, the vital question in connection with consolidations of this character, resulting in the granting of a monopoly to a utility in a given field, will always be whether, under the supervision and regulation now established by this State, the State will be strong enough and effective enough to compel good service at reasonable rates and an enlightened policy toward the public, in case the utility having such monopoly should be disinclined to do its duty toward the public. It must be presumed, in this connection, that the public will be vigilant in the defense of its rights and that it will insist that the public officials entrusted with the supervision and regulation of public utilities will be alert and vigorous in the protection of the public, as well as just and constructive in their dealings with the public utilities. The authority vested in this Commission will, of course, <sup>be exercised</sup> vigorously in the interest of impartial justice to all.

If these means prove inadequate, there is always the final remedy of acquisition and operation of the utilities by the public. We believe that this final possibility will generally induce even such public utility monopolies as might not be inclined to do their full duty under regulation by the state authorities, to accord to their customers and subscribers the treatment to which they are entitled.

After a careful consideration of the issues involved herein, we have reached the conclusion that the petition herein should be granted to the extent and subject to the conditions specified in the order herein.



We submit the following form of order:

O R D E R.

SANTA BARBARA TELEPHONE COMPANY, HOME TELEPHONE & TELEGRAPH COMPANY OF SANTA BARBARA COUNTY, HOME TELEPHONE & TELEGRAPH COMPANY OF SANTA BARBARA, SUNSET TELEPHONE AND TELEGRAPH COMPANY and THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY having filed their petition herein as appears in the opinion which precedes this order, and a public hearing having been held and this proceeding having been submitted and being now ready for decision,

IT IS HEREBY ORDERED as follows, subject to the conditions which appear in the latter portion of this order:

1. Home Telephone & Telegraph Company of Santa Barbara is hereby authorized to sell and convey to Santa Barbara Telephone Company all the lands, property and rights of Home Telephone & Telegraph Company of Santa Barbara, except the right to be a corporation, the lands to be conveyed including those two parcels of real property which are specifically described in Exhibit No. 1 which is attached to and made a part of this order.
2. Home Telephone & Telegraph Company of Santa Barbara County is hereby authorized to sell and convey to Santa Barbara Telephone Company all the lands, property and rights of Home Telephone & Telegraph Company of Santa Barbara County, except the right to be a corporation.
3. Sunset Telephone & Telegraph Company is hereby authorized to sell and convey to The Pacific Telephone & Telegraph Company for the sum of \$10.00 in cash all the lands, property and rights of Sunset Telephone & Telegraph Company in Santa Barbara County and in that part of San Luis Obispo County

known as Rancho Guadalupe, including the rights of Sunset Telephone & Telegraph Company under Ordinance No. 57 of the Town of Lompoc, approved April 17, 1893 and Ordinance No. 293 of the City of Santa Barbara, approved February 7, 1896.

4. The Pacific Telephone and Telegraph Company is hereby authorized to sell and convey to Santa Barbara Telephone Company the lands, property and rights which are (specifically) described in Exhibit No. 2, which is attached to and made a part of this order.

5. Home Telephone & Telegraph Company of Santa Barbara is hereby authorized to sell and convey to Santa Barbara Telephone Company and Santa Barbara Telephone Company is hereby authorized to acquire 2000 shares of the capital stock of Home Telephone & Telegraph Company of Santa Barbara County, having a par value of \$200,000.00, which shares of capital stock are owned and controlled by Home Telephone & Telegraph Company of Santa Barbara.

6. Santa Barbara Telephone Company is hereby authorized to issue to Home Telephone & Telegraph Company of Santa Barbara in payment for the property to be conveyed by Home Telephone & Telegraph Company of Santa Barbara to Santa Barbara Telephone Company, such securities as may hereafter be authorized by supplemental order herein.

7. Santa Barbara Telephone Company is hereby authorized to pay to Home Telephone & Telegraph Company of Santa Barbara County, in consideration for the property to be conveyed by Home Telephone & Telegraph Company of Santa Barbara County to Santa Barbara Telephone Company, such compensation or to issue such securities as may hereafter be authorized by supplemental order herein.

8. Santa Barbara Telephone Company is hereby authorized to issue to The Pacific Telephone and Telegraph Company, in consideration for the property to be conveyed by The Pacific Telephone and Telegraph Company to Santa Barbara Telephone Company, such securities as may hereafter be authorized by supplemental order herein.

9. Santa Barbara Telephone Company is hereby authorized to execute to Los Angeles Trust & Savings Bank its deed of trust or mortgage in substantially the form of Exhibit F attached to the petition herein, to secure the issue of 5 per cent 30-year gold bonds of the face value of \$700,000.00 and to issue its bonds secured by such deed of trust as follows:

a- Santa Barbara Telephone Company is hereby authorized to issue its 5 per cent 30-year first mortgage bonds of the face value of \$100,000.00, to net in cash not less than 90 per cent of face value, plus accrued interest, and to use the proceeds for such purpose as may hereafter be specified by supplemental order herein.

b- Santa Barbara Telephone Company is hereby authorized to issue its first mortgage 5 per cent 30-year bonds of the face value of \$169,000.00, in exchange for the entire outstanding issue of \$200,000.00 face value of bonds of Home Telephone & Telegraph Company of Santa Barbara.

c- Santa Barbara Telephone Company is hereby authorized to issue its first mortgage 5 per cent 30-year bonds of the face value of \$127,500.00 in exchange for the entire outstanding issue of bonds of Home Telephone & Telegraph Company of Santa Barbara County, amounting to \$150,000.00.

d- Santa Barbara Telephone Company is hereby author-

ized to issue its first mortgage 5 per cent 30-year bonds, from time to time, of the face value of \$1,000.00, \$500.00, and \$100.00 in exchange for its bonds of lower denominations, but of an equivalent par value, in so far as such bonds of lower denominations may be issued under the order herein.

e- Santa Barbara Telephone Company is hereby authorized to issue one share of common/<sup>capital</sup>stock to each of five directors for the compensation of \$100.00 per share, the proceeds to be devoted to such purpose as may hereafter be specified by supplemental order herein.

10. Santa Barbara Telephone Company is hereby authorized to make effective the rates, rules and regulations heretofore filed by said company with the Railroad Commission.   
✓ *omit* (~~provided that the conditions hereinafter set forth shall have been complied with.~~)

11. The authority herein granted to petitioners to perform the acts herein specified shall not become effective until the Railroad Commission shall have issued its supplemental order or orders herein reciting that petitioners have performed the following acts to the satisfaction of the Railroad Commission:

(1) Petitioners shall submit to the Railroad Commission a revised plan with reference to the amount and character of capital stock to be issued by Santa Barbara Telephone Company in exchange, in whole or in part, for the properties to be acquired by it.

(2) The Pacific Telephone and Telegraph Company shall present to the Railroad Commission a form of deed of conveyance to Santa Barbara Telephone Company, revised as indicated in the opinion which precedes this order, in the manner of franchises, or shall otherwise take steps satisfactory to the Railroad Commission to safeguard Santa Barbara Telephone Company in the matter of franchises owned or claimed by The Pacific Telephone and Telegraph Company.

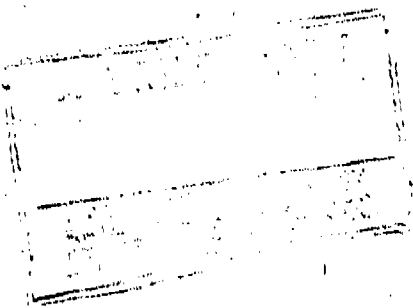
(3) The Pacific Telephone and Telegraph Company shall file with the Railroad Commission a stipulation, duly authorized by its board of directors, agreeing for itself, its successors and assigns, that it will never claim in any proceeding before the Railroad Commission, any court or any other public authority, any value for the franchises which are to be conveyed to it by Sunset Telephone and Telegraph Company in excess of the moneys which were originally paid by Sunset Telephone and Telegraph Company for said franchises to the public authorities granting the same, which moneys shall be stated for each franchise in said stipulation.

(4) Santa Barbara Telephone Company shall file with the Railroad Commission a stipulation, duly authorized by its board of directors, agreeing for itself, its successors and assigns, that it will never claim in any proceeding before the Railroad Commission, any court or any other public authority, any value for the franchises which are to be conveyed to it by The Pacific Telephone and Telegraph Company, Home Telephone & Telegraph Company of Santa Barbara and Home Telephone & Telegraph Company of Santa Barbara County, in excess of

the moneys which were originally paid by the respective grantees of said franchises to the public authorities granting the same, which moneys shall be stated for each franchise in said stipulation.

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 2nd day of - October, 1916.



Max Thelen  
H. H. Loveland  
W. Gordon  
Edwin W. Egerton  
Francis R. Durbin  
Commissioners.

EXHIBIT NO. 1.

All that certain real property situate, lying and being in the City of Santa Barbara, County of Santa Barbara, State of California, and more particularly described as follows:

Commencing at a point in Block number One Hundred fifty-eight (158) in the southeasterly line of Carrillo Street, distant thereon one hundred and fifty (150) feet southwesterly from the southerly corner of Carrillo and State Streets, and running thence at right angles into said block and parallel with State Street, one hundred sixteen (116) feet three and one-half ( $3\frac{1}{2}$ ) inches to an alleyway twenty (20) feet in width; thence at right angles southwesterly and parallel with Carrillo Street and along said alleyway thirty (30) feet; thence at right angles northwesterly and parallel with State Street one hundred sixteen (116) feet three and one-half ( $3\frac{1}{2}$ ) inches to a point in the southeasterly line of Carrillo Street; thence along said Carrillo Street northeasterly thirty (30) feet to the point of beginning.

All that certain real property situate, lying and being in the County of Santa Barbara, State of California, and more particularly described as follows:

Beginning at a point on the south line of the County Road running from the Hot Springs Avenue to San Ysidro Road, distant four hundred and forty (440) feet, north eighty-four (84) degrees east, from the west corner of that certain tract of land conveyed by Thomas Hosmer and wife to the First Presbyterian Church of El Montecito, by deed dated January 24th, 1891, and recorded in the office of the County Recorder of Santa Barbara County in Book 29 of Deeds, page 537, said point being also the east corner of that certain tract conveyed by the parties of the first part to Percy O. Buell, by deed dated March 10th, 1900, and recorded in said Recorder's office in Book 70 of Deeds, page 115, and running thence south and along the east line of said lot so conveyed to Percy O. Buell, one hundred and ninety-eight (198) feet; thence north eighty-four (84) degrees east and parallel with the said County Road, thirty (30) feet; thence at right angles north and parallel with the east line of lot so conveyed to

Percy O. Buell, one hundred and ninsty-eight (198) feet to the south line of said County Road; thence at right angles south eighty-four (84) degrees west, along said County Road, thirty (30) feet to the place of beginning.

TOGETHER with all the tenements, hereditaments and appurtenances belonging, or in anywise appertaining, to the two parcels of real property herein described.



EXHIBIT NO. 2.

FIRST: That certain franchise granted by the City of Santa Maria to The Pacific Telephone and Telegraph Company by Ordinance No. 41, passed August 19, 1912;

SECOND: That certain franchise granted by the Town of Lompoc to Sunset Telephone and Telegraph Company by Ordinance No. 57, passed April 17, 1893;

THIRD: That certain franchise granted by the City of Santa Barbara to Sunset Telephone and Telegraph Company by Ordinance No. 293, passed February 7, 1896;

*certains franchise granted by the City of Santa Barbara to The Pacific Telephone and Telegraph Company by Ordinance No. 293 passed Feb 7, 1896*

FOURTH: All that real property situate, lying and being in the City of Santa Barbara, State of California, and more particularly described as follows, to-wit:

Commencing at the northerly corner of De La Guerra and Chapala Streets, thence northwesterly along the northern line of Chapala Street one hundred fifty-five and thirteen one-hundredths (155-13/100) feet; thence at right angles north-easterly fifty (50) feet; thence at right angles southeasterly one hundred and fifty-five and thirteen one-hundredths (155-13/100) feet to the northerly line of De La Guerra Street and thence southwesterly along the westerly line of De La Guerra Street fifty (50) feet to the point of commencement, being part of City Block No. One Hundred and seventy-five (175) of the City of Santa Barbara.

TOGETHER with all and singular, the tenements, hereditaments and appurtenances thereunto belonging, or in anywise appertaining, and the remainder and remainders, reversion and reversions, rents, issues and profits thereof.

FIFTH: All of the poles, lines, wires, cables, conduits, switchboards and other plant and property, and all the easements and rights of way owned by The Pacific Telephone and Telegraph Company and used by it in furnishing telephone service in the County of Santa Barbara, State of California, and in that portion of the County of San Luis Obispo known as Rancho Guadalupe, except the following property of The Pacific Telephone and Telegraph Company:

1. The through toll pole lines.
2. The through toll aerial wires, including the Santa Barbara-Santa Maria loop, which is used as one of the physical loops on which a through phantom circuit is set up.
3. The subscribers' stations, which are duplicated by stations of Home Telephone & Telegraph Company of Santa Barbara and Home Telephone & Telegraph Company of Santa Barbara County.
4. The equipment in the offices at Montecito, Santa Ynez, Los Olivos, <sup>Lompoc,</sup> Los Alamos and Guadalupe.
5. The plant comprising the office entrances at Montecito and Lompoc.