

Decision No. _____

ORIGINAL

Decision No. 3945

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of)
 SOUTHERN CALIFORNIA TELEPHONE COMPANY)
 for an order authorizing the issue of)
 capital stock and bonds, the execution)
 of a deed of trust, the purchase of pro-)
 perty, and the operation under various)
 franchises; of HOME TELEPHONE AND TELE-)
 GRAPE COMPANY for an order authorizing)
 the sale of its property to Southern)
 California Telephone Company; of)
 SUNSET TELEPHONE AND TELEGRAPE COMPANY)
 for an order authorizing the sale of a)
 portion of its property to The Pacific)
 Telephone and Telegraph Company; and of)
 THE PACIFIC TELEPHONE AND TELEGRAPE)
 COMPANY for an order authorizing the)
 sale of a portion of its property to)
 Southern California Telephone Company)
 and the acquisition of capital stock)
 of Southern California Telephone)
 Company.)

Application No. 2227.

Pillsbury, Madison and Sutro, by H. D. Pillsbury,
 James T. Shaw and Allen L. Chickering for
 The Pacific Telephone and Telegraph Company
 and Sunset Telephone and Telegraph Company.
 H. M. Robinson and R. N. Frick for Home Telephone
 and Telegraph Company.
 Mott and Dillon for Southern California Telephone Co.
 Albert Lee Stephens, City Attorney, and H. M.
 Robertson, Assistant City Attorney, for City of
 Los Angeles.
 Fulton Lane and F. D. Howell for Board of Public
 Utilities of City of Los Angeles.
 W. W. Butler for Independent Telephone Companies.

THELEN and GORDON, Commissioners.

O P I N I O N.

This is a proceeding for the consolidation of the pro-
 perty of Home Telephone and Telegraph Company, of Los Angeles,
 and that part of the property operated by The Pacific Telephone
 and Telegraph Company, except its toll lines, which is located
 in a designated area including most of the City of Los Angeles
 and certain municipalities and unincorporated territory adjacent
 thereto, as will appear hereinafter in greater detail.

The petition of Southern California Telephone Company, Home Telephone and Telegraph Company and The Pacific Telephone and Telegraph Company herein alleges, in effect, that each of petitioners is a California corporation; that the financial condition of Southern California Telephone Company, hereinafter referred to as the Southern Company, is as set forth in the petition; that the financial condition of Home Telephone and Telegraph Company, hereinafter referred to as the Home Company, and of The Pacific Telephone and Telegraph Company, hereinafter referred to as the Pacific Company, is as set forth in financial statements on file with the Railroad Commission; that the Southern Company desires to acquire the property of the Home Company and of the Pacific Company in a designated area, including most of the City of Los Angeles, as well as certain cities and unincorporated territory adjacent to the City of Los Angeles; that it is impossible to state the original cost of the properties to be acquired by the Southern Company from the Home Company and the Pacific Company; that the Southern Company desires to issue to the Pacific Company, for cash, its common stock of the par value of \$150,000.00, at par; that the ^{Southern} ~~Home~~ Company desires to purchase from the Home Company the entire property of the Home Company with the exception of its corporate franchises, corporate records, cash, bills receivable and securities on hand; that on December 31, 1915, the present value of the property to be sold by the Home Company, exclusive of accounts receivable, was the sum of \$7,711,000.00, and that the parties desire to sell and purchase this property by the issue by the Southern Company at 91 1/2 per cent of their face value, of bonds of the Southern Company of the face value of \$8,427,000.00, guaranteed as to principal and interest by the Pacific Company; that the Pacific Company desires to sell and the Southern Company desires to purchase the entire property of

the Pacific Company, with the exception of its toll lines, located in a specified portion of the City of Los Angeles, City of Watts, City of Vernon, City of Eagle Rock, City of Huntington Park, and portions of the County of Los Angeles adjacent to said cities, constituting the Pacific Company's present Los Angeles and Eagle Rock telephone exchanges; that on December 31, 1915, the present value of the property to be conveyed by the Pacific Company, exclusive of accounts receivable, was the sum of \$7,544,000.00; that the parties desire to sell and purchase said property of the Pacific Company by the issue by the Southern Company, at 91½ per cent of their face value, of bonds of the Southern Company of the face value of \$1,500,000.00 and of capital stock, at par, of the Southern Company, having a total par value of \$6,171,500.00; that the Southern Company desires to authorize a bonded indebtedness, to consist of 30-year bonds of the face value of \$1,000.00 each, to bear interest at the rate of 5 per cent per annum, and to execute a deed of trust or mortgage to Los Angeles Trust & Savings Bank, to secure the same; that the principal and interest of the bonds to be issued by the Southern Company in payment for the property of the Home Company are to be guaranteed by the Pacific Company; that at the present time the Home Company has approximately 60,000 telephone stations and the Pacific Company approximately 69,000 telephone stations in the territory affected; that the consolidation of telephone properties as contemplated by petitioners will be to the benefit of the subscribers of each of the existing telephone systems and to the public generally in the territory affected; and that the Home Company and the Pacific Company desire to sell and the Southern Company desires to purchase all additions and extensions made between December 31, 1915 and the date of the transfer of the properties to the Southern Company, together with the accounts receivable then outstanding in the case of each of said companies, the consideration to the Home Company to be the present value

at such time of said extensions, additions and accounts receivable to be paid in bonds of the Southern Company issued at 91 1/2 per cent of their face value and the consideration to the Pacific Company to be the present value at such time of its extensions, additions and accounts receivable to be paid in stock of the Southern Company issued at par.

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

1. Authorizing the Home Company to sell its property to the Southern Company and authorizing the Southern Company to issue in exchange for said property its bonds of the face value of \$8,427,000.00, issued at 91 1/2 per cent of their face value, together with bonds of the Southern Company issued at the same rate for additions and extensions from December 31, 1915, to the date of transfer and accounts receivable on the date of transfer;

2. Authorizing the Pacific Company to guarantee the payment of the principal and interest of all bonds issued by the Southern Company as payment for the property of the Home Company and to execute an agreement of guaranty of said bonds to be issued to the Home Company;

3. Authorizing the Pacific Company to sell to the Southern Company the property of the Pacific Company described in the petition and authorizing the Southern Company to issue in exchange for said property its bonds of the face value of \$1,500,000.00, issued at 91 1/2 per cent of their face value, and capital stock of the Southern Company of the par value of \$6,171,500.00, together with capital stock issued at par for additions and extensions from December 31, 1915, to the date of the transfer and accounts receivable on the date of transfer;

4. Authorizing the Southern Company to issue and the Pacific Company to subscribe for and purchase at par, capital stock of the Southern Company of the par value of \$150,000.00;

5. Authorizing the Southern Company to issue its capital stock and bonds as hereinbefore designated and to execute a deed of trust or mortgage to secure the issue of its bonds; and,

6. Authorizing the Home Company and the Pacific Company to withdraw from business, except toll business of the Pacific Company, in the territory affected and authorizing the Southern Company to engage in the telephone and telegraph business therein.

Subsequent to the filing of the petition of the Southern Company, the Home Company and the Pacific Company herein, Sunset Telephone and Telegraph Company, hereinafter referred to as the Sunset Company, filed its petition, alleging, in effect, that the Sunset Company owns a general telephone and telegraph system extending generally throughout the State of California, except in the City and County of San Francisco; that the property to be conveyed by the Pacific Company to the Southern Company, with the exception of the franchises granted respectively by the City of Eagle Rock, the City of Vernon and the City of Watts, is owned in fee simple by the Sunset Company, but that the Sunset Company does not operate nor has it at any time subsequent to January 2, 1907, operated said property or any part of said property in the State of California; that Sunset Company's entire property has been operated and is now being operated by the Pacific Company by virtue of a lease from the Sunset Company to the Pacific Company dated January 2, 1907; that Sunset Company has made application to the Railroad Commission for authority to convey to the Pacific Company the Sunset Company's entire property in the State of California; that the Sunset Company desires, prior to the conveyance from the Pacific Company to the Southern Company, to convey to the Pacific Company that portion of its entire property in the County of Los Angeles which is described in the proposed instrument of conveyance from the Pacific Company to the Southern Company, so that the Pacific Company may convey good title thereto to Southern

Company. Sunset Company asks authority to convey to the Pacific Company that portion of its entire property in Los Angeles County which is described in the proposed deed of conveyance from the Pacific Company to the Sunset Company, for the consideration of \$10.00.

Public hearings in this proceeding were held in Los Angeles on October 16, 17 and 27, 1916. At these hearings, the City Attorney and the Board of Public Utilities of the City of Los Angeles appeared under authority of a resolution of the City Council of Los Angeles and presented evidence in support of certain conditions which the city officials urged should be inserted in the order herein if consolidation should be authorized. A number of independent telephone companies doing business in Los Angeles County presented evidence to show respects in which they feared that they might be injured if the consolidation should be effected. Statements defining the position of the signers with reference to the proposed consolidation were filed herein by the Municipal League of Los Angeles, Public Ownership League and Peoples Municipal Phone Committee.

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

1. Telephone development in Los Angeles.
2. The Pacific Telephone and Telegraph Company.
3. Home Telephone and Telegraph Company.
4. Southern California Telephone Company.
5. Conditions after consolidation.
 - (a) Service.
 - (b) Rates.
 - (c) Revenues and expenses.
 - (d) Securities.
6. Franchises.
7. Interchange versus consolidation.
8. Elimination of competition.

1. TELEPHONE DEVELOPMENT IN LOS ANGELES.

The first reference to telephone development in Los Angeles found in the proceedings herein is contained in Ordinance No. 1130 (New Series), adopted by the City of Los

Angeles on November 16, 1891. In this ordinance the City of Los Angeles granted to the Sunset Company for a period of 25 years from and after the date of approval of the ordinance, the right to use the streets and other public places of the City of Los Angeles for the construction and operation of a plant "for the transmission of electricity for telephonic and other purposes for which electricity may be used to transmit intelligence by signals or sounds."

The Sunset Company enjoyed a monopoly of the telephone business in the City of Los Angeles until 1902. The testimony shows that in and prior to 1902 the Sunset Company's service and its general relations to the public were not satisfactory to the public.

On February 5, 1902, by Ordinance No. 6959 (New Series), the City of Los Angeles granted to M. A. King the right for a period of 50 years to construct and operate on the streets and other public places in the City of Los Angeles, a general telephone system. The rights granted by this franchise were subsequently assigned to Home Telephone and Telegraph Company, which was incorporated under the laws of California on September 23, 1902, for the purpose, primarily, of engaging in the telephone business in the City of Los Angeles. The Home Company at first operated a manual system but thereafter changed its system, with the exception of a small portion thereof, to the automatic system. Consequently, subsequent to about 1903, the manual system operated by the Pacific Company and its predecessor, the Sunset Company, and the automatic system operated by the Home Company have been in competition with one another. The Home Company is said to be the largest company now competing with the so-called Bell system and to operate the largest automatic switchboard plant in the world.

Table No. I shows the comparative growth of telephone stations in the territory here under consideration, from April 1, 1910 to July 1, 1916.

TABLE NO. I

Comparative Growth in Number of Telephone Stations in Territory
Covered by Application No. 2227 - April 1, 1910 to July 1,
1916.

<u>Date</u>	<u>Home Company Stations</u>	<u>Pacific Company Stations</u>
April 1, 1910	35,354	38,747
July 1, 1910	36,342	39,382
Oct. 1, 1910	36,896	39,725
Jan. 1, 1911	38,751	41,056
April 1, 1911	39,853	41,746
July 1, 1911	40,740	42,395
Oct. 1, 1911	41,441	43,779
Jan. 1, 1912	43,530	44,922
April 1, 1912	45,939	47,804
July 1, 1912	47,116	49,422
Oct. 1, 1912	47,670	50,852
Jan. 1, 1913	49,817	53,833
April 1, 1913	51,800	56,824
July 1, 1913	52,547	58,941
Oct. 1, 1913	54,090	59,784
Jan. 1, 1914	55,556	62,158
April 1, 1914	56,813	64,455
July 1, 1914	57,002	65,165
Oct. 1, 1914	56,959	65,068
Jan. 1, 1915	57,138	65,479
April 1, 1915	57,557	66,371
July 1, 1915	57,529	66,626
Oct. 1, 1915	58,208	66,377
Jan. 1, 1916	59,878	67,908
April 1, 1916	60,580	68,643
July 1, 1916	60,395	68,474

It will be observed that on July 1, 1916, the Home Company had a total of 60,395 telephone stations and the Pacific Company a total of 68,474 telephone stations in the territory affected.

For a considerable time the people of Los Angeles have been dissatisfied with the existence of the dual telephone system. This dissatisfaction is due not merely to the inconvenience of having two telephones; but also to the large expense resulting to the subscribers therefrom. There has been a growing sentiment in the City of Los Angeles in favor of the elimination of the present dual telephone system. This sentiment has been crystallized both among the people of Los Angeles and among the competing telephone systems themselves, by reason of the fact that the franchise granted by Ordinance No. 1130 (New Series), of the City of Los Angeles to the Sunset Company will expire on November 16th of this year.

The purpose of the plan herein presented is to eliminate the dual telephone system with its inconvenience and expense by the consolidation of the existing properties into a single telephone system which will be owned and operated, through the agency of the Southern Company, by the Pacific Company.

2. THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY.

The Pacific Telephone and Telegraph Company operates a local exchange and long distance telephone and telegraph service in the states of California, Oregon, Washington, ~~Montana~~ and Idaho. The company is incorporated under the laws of California. It has an authorized capital stock of the par value of \$50,000,000.00; consisting of common stock of the par value of \$18,000,000.00 and 6 per cent preferred stock of the par value of \$32,000,000.00. Of the common stock, American Telephone and Telegraph Company owns

\$11,727,600.00, or approximately 65 per cent, and of the preferred stock this company owns \$22,930,800.00, or approximately 71 1/2 per cent.

On December 31, 1915, the Pacific Company reported that it had outstanding 30-year 5 per cent sinking fund first mortgage and collateral trust gold bonds of the face value of \$34,032,000.00. The Pacific Company has also assumed the payment of \$7,080,000.00, face value, of bonds of Home Long Distance Telephone Company and of \$3,000,000.00, face value, of bonds of Home Telephone and Telegraph Company of Spokane.

The Pacific Company reports a net investment in fixed capital on December 31, 1915, amounting to \$82,208,355.89. The Pacific Company claims that the property to be conveyed by it to the Southern Company represents a value of between 9 and 10 per cent of the value of the Pacific Company's entire property.

The Pacific Company reports that the capital stock and bonds to be issued to it by the Southern Company will be placed under its first mortgage in lieu of the property to be conveyed by the Pacific Company to the Southern Company.

The Pacific Company owns the entire capital stock of the Sunset Company. The value of the property to which the Sunset Company has the legal title is included in said sum of \$82,208,355.89.

The property to be conveyed by the Pacific Company to the Southern Company consists of the entire property of the Sunset Company and the Pacific Company, with the exception of toll lines, in the Pacific Company's present Los Angeles and Eagle Rock telephone exchanges, consisting of property located in the City of Los Angeles, City of Watts, City of Vernon, City of Eagle Rock, City of Huntington Park and portions of the County of Los Angeles adjoining said cities.

It has been impossible to ascertain the original cost to date of the properties to be conveyed by the Pacific Company

to the Southern Company.

The Pacific Company presented herein a detailed inventory of the property to be conveyed by it to the Southern Company, together with an estimate of the value of the property determined by two methods, designated by the Pacific Company as the "actual performance" method and the "structural value" method, as of June 30, 1914. The appraisals on these two methods were brought down to December 31, 1915, by the addition of additions and betterments. The "actual performance" method consists in the application of unit prices for material and labor, taken from the records of the Pacific Company. In the "actual performance" appraisal of the Pacific Company's property herein presented, the company used the average prices paid by it for material and labor during the period from January 1, 1912 to June 30, 1914.

The Pacific Company defines "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". In ascertaining the diminution in value of the property, the Pacific Company did not rely on 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 an inspection of the property.

The Railroad Commission introduced, as Railroad Commission's Exhibit No.2, an inventory and appraisal of the physical property to be conveyed by the Pacific Company to the Southern Company, as of December 31, 1915, prepared by the Railroad Commission's engineering department.

The engineering department's estimate of reproduction cost is an estimate, on the historical method, of the cost to reproduce or replace the physical property as of December 31, 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 careful consideration of the lives of the property, as modified by inspection on the ground. While the engineers both for the Pacific Company and for the Railroad Commission have been most careful and conscientious in their work, we are satisfied that the method of determining "reproduction cost less depreciation" as used by the Railroad Commission's engineers, is more calculated to give a trustworthy conclusion than is the method used by the Pacific Company's engineers to determine "structural value". This conclusion follows from the fact that the Pacific Company's engineers base their conclusions largely on mere inspection, without a knowledge of the period of time during which each part of the property has actually been installed and without apparently any considerable reliance on life tables gathered from accumulated experience. The method pursued by the Railroad Commission's engineers, on the other hand, consists in the use of life tables, with knowledge as to the period of time during which the various structures have been installed, as modified by a careful inspection on the ground.

Table No. II shows the Pacific Company's estimate of the "actual performance value" and of the "structural value" of the physical property to be conveyed by the Pacific Company as of December 31, 1915, and also 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 December 31, 1915.

Table No. II
Engineering Estimates, Physical Property to be Sold by
The Pacific Telephone and Telegraph Company
To Southern California Telephone Company
December 31, 1915.

OPERATIVE PROPERTY	Pacific Company's Actual Performance Value Dec. 31, 1915	Railroad Commission's Engineering Department-Reproduction Cost New Dec. 31, 1915	Difference Between Columns 1 and 2	Pacific Company's Structural Value Dec. 31, 1915	Railroad Commission's Engineering Department-Reproduction Cost Less Depreciation Dec. 31, 1915	Difference Between Columns 4 and 5
		100.00			100.00	*100.00
T-1 201 Organization		109 968.21	*67 614.87	42 353.24	109 968.21	*67 614.97
T-2 202 Franchises	42 353.34	363 235.89	69 778.50	453 014.39	363 235.89	69 778.50
T-3 207 Right of Way	453 014.39	369 596.56	10 215.54	341 830.69	340 702.90	1 127.99
T-4 211 Land	379 812.10	1 710 366.86	95 978.82	1 625 711.13	1 247 146.91	378 564.22
T-5 212 Buildings	1 806 345.68	19 441.66	*19 441.66	782 654.86	14 581.25	*14 581.25
T-6 221 Central Office Telephone Equip'mt		398 033.65		782 654.86	358 776.67	
T-7 222 Other Equip't of Central Offices	920 770.42	215 646.34	67 190.95	782 654.86	191 925.24	18 442.42
T-8 231 Station Apparatus	750 706.50	8 397.24			7 473.54	
T-9 232 Station Installations	920 770.42	226 087.82			4 818.83	
T-10 233 Interior Block Wires		5 414.42		548 015.75	432 914.36	115 101.39
T-11 234 Private Branch Exchanges		593 953.08	156 753.42	609 529.81	483 287.19	126 242.62
T-12 235 Booths and Special Fittings	750 706.50	657 304.75	59 769.14	326 818.90	259 441.55	67 377.35
T-13 241 Exchange Pole Lines	717 093.89	350 679.90	33 812.92	1 077 209.60	857 088.51	220 121.09
T-14 242 Exchange Aerial Cable	384 492.82	971 010.21	117 080.28	1 583 673.34	1 240 558.86	343 114.48
T-15 243 Exchange Aerial Wire	1 088 090.49	1 500 575.39	115 417.85		66.82	*66.82
T-16 244 Exchange Underground Conduits	1 615 993.24	66.82	*66.82	47 388.57	50 119.62	*2 731.05
T-17 245 Exchange Underground Cable		58 885.09	350.62	386.88	192.13	194.75
T-18 246 Exchange Submarine Cable	59 235.71	601.55	*6.35	1 333.28	816.22	517.06
T-25 261 Office Furniture and Fixtures	595.20	2 011.36	39.84	25 740.92	20 178.71	5 562.21
T-26 262 General Shop Equipment	2 051.20	36 363.77	408.98	14 047.49	15 874.34	*1 826.85
T-27 263 General Store Equipment	36 772.75	19 932.57	135.27	41 914.59	38 420.72	3 493.87
T-28 264 General Stable & Garage Equip't	20 067.84	46 536.72	*476.73		244 332.00	*244 332.00
T-29 265 General Tools and Implements	46 089.99	311 251.00	*311 251.00		150 238.00	*150 238.00
T-30 268 Interest During Construction		191 386.00	*191 386.00			
T-31 271 Engineering and Superintendence		22 327.92	1 638.79	22 768.37	22 327.92	440.45
T-31 274 Miscellaneous Construction Expendit.		71 521.00	*71 521.00		56 144.00	*56 144.00
T-32 Materials & Supplies on Hand for Use in California Omissions	23 966.71	22 327.92			6 711 948.55	832 443.47
	<u>8 347 422.27</u>	<u>8 266 695.78</u>	<u>86 726.49</u>	<u>7 544 392.02</u>	<u>6 711 948.55</u>	<u>832 443.47</u>
GRAND TOTAL			*5 470.00		5 470.00	*5 470.00
Total Nonoperative Property (Not Includ- ed in Above Totals)		5 470.00	61 256.49	7 544 392.02	6 717 416.55	826 973.47
Total Operative and Nonoperative Property	8 347 422.27	8 266 165.78				

* Railroad Commission's Engineering Department in Excess of Pacific Company.

Attention should be drawn to the fact that the property appraised in Table No. II includes all existing duplications of property as between the Pacific Company and the Home Company.

Table No. III shows the earnings and expenses of the Pacific Company from its Los Angeles and Eagle Rock exchanges, including Wilmington and San Pedro, during the calendar years 1911 to 1915, inclusive, as appears from Exhibit No. 14 of Petitioners herein.

TABLE NO. III

The Pacific Telephone and Telegraph Company-- Earnings and Expenses, Los Angeles and Eagle Rock Exchanges, Including Wilmington and San Pedro, 1911 to 1915, Inclusive.

	1915	1914	1913	1912	1911
Operating Revenues:					
Exchange Service Revenues	\$2,027,519.48	\$1,640,603.49	\$1,641,626.04	\$1,395,306.03	\$1,208,777.80
Toll Service Revenues	107,378.40	103,635.69	100,491.34	80,152.60	61,277.00
Misc. Operating Revenues	41,490.06	44,594.65	36,541.41	-	-
Licensee Revenue, Dr.	92,250.31	84,202.19	74,825.83	62,675.24	55,255.44
Total Revenue	2,084,137.63	1,904,831.64	1,703,832.96	1,412,563.59	1,214,799.36
Operating Expenses:					
1. Operation:					
Traffic	605,246.98	569,551.57	554,683.49	371,910.39	317,967.03
Commercial	229,278.23	202,370.46	204,516.96	175,048.37	177,621.66
General	179,007.94	53,794.23	40,093.06	24,157.68	20,301.63
Rights, Privileges & Use of Property	-	-	-	2,152.45	822.60
Insurance	-	-	-	4,118.81	3,457.60
Total Operations	1,013,533.15	845,716.26	799,293.51	577,387.70	520,420.72
2.- Maintenance					
Ordinary Repairs	235,301.22	226,345.78	234,792.05	175,023.01	136,302.01
Station Removals and Changes	114,814.41	124,635.06	100,373.33	74,397.45	101,156.10
Depreciation	518,616.36	482,636.63	437,047.02	397,441.14	346,006.14
Total Maintenance	868,731.99	833,617.47	772,212.40	646,861.60	583,464.25
Other Deductions:					
Uncollectible	44,015.16	24,009.41	21,239.03	42,335.03	-
Taxes	78,395.37	69,330.29	53,660.12	42,625.94	57,934.72
Rent Deductions for Tel. Offices	13,823.07	25,261.28	23,236.62	-	-
Rent Deductions for Conduits, Poles and other supports	261.07	255.78	388.99	-	-
Total Other Deductions	136,494.67	118,856.76	98,524.76	42,625.94	57,934.72
Grand Total Deductions	2,018,759.81	1,798,390.49	1,670,030.67	1,266,875.24	1,161,819.69
Net Revenue	65,377.82	106,441.15	33,802.29	145,688.35	52,979.67

The testimony shows that the Pacific Company has approximately 1200 telephone stations in Wilmington and San Pedro, and that its maintenance and operating expenses in connection with its Wilmington and San Pedro business are approximately 2 per cent of the total maintenance and operating expenses shown in Table No.III. The gross revenue from the Pacific Company's Wilmington and San Pedro business is somewhat less than 2 per cent of the gross revenue shown in Table No.III, due to the fact that the Pacific Company's rates in Wilmington and San Pedro are less than its rates in the Los Angeles exchange.

The item "Licensee Revenue" shown in Table No.III is $4\frac{1}{2}$ per cent of the Pacific Company's local exchange and toll revenues from the territory here under consideration, which moneys are paid by the Pacific Company to American Telephone and Telegraph Company under contract, a copy of which is on file in this proceeding. The sum thus paid includes rental of the telephone transmitters, receivers and induction coils and other instruments which are owned by the American Telephone and Telegraph Company, and also certain services performed by American Telephone and Telegraph Company for the Pacific Company. The Southern Company is to become a licensee of the Pacific Company under a connecting agreement which has not as yet been presented to the Railroad Commission and concerning which we accordingly express no opinion at this time.

The City of Los Angeles drew attention to the licensee revenue paid to American Telephone and Telegraph Company and to the contract between the Pacific Company and Western Electric Company for the purchase of certain material. Both these matters are being given careful consideration in the state-wide proceeding affecting all the local exchange rates of the Pacific Company in California, now pending before the Railroad Commission. In

any rate proceeding in which these matters hereafter become pertinent, the Railroad Commission will, of course, allow under the head of fixed capital and of maintenance and operating expenses only such amounts as may be found to be just and reasonable, without any reference to any/^{alleged}exclusive or other contract between the telephone utility whose rates are being investigated and any other corporation, association or person.

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 are amounts estimated for the purpose of this proceeding, being annually between 6 and 6½ per cent of the estimated "structural value" of the depreciable property. The testimony shows that during the year 1915, the Pacific Company set aside for its entire system, as depreciation annuity, approximately 5 per cent of the estimated value of its tangible property and that no uniform policy in this regard has been adopted by the Pacific Company.

Assuming, herely for the purpose of the computation, the accuracy of the allowance claimed by the Pacific Company's engineers for depreciation, it would appear that the Pacific Company's net revenue from the property herein under consideration during the year 1911 was sufficient to pay 6 per cent interest on approximately \$880,000.00; in 1912, 6 per cent interest on approximately \$2,430,000.00; in 1913, 6 per cent on approximately \$563,000.00; in 1914, 6 per cent interest on approximately \$1,775,000.00; and in 1915, 6 per cent interest on approximately \$1,090,000.00.

As already shown herein, the Pacific Company claims an "actual performance value" of its physical property as of December 31, 1915, amounting to \$8,347,422.27 and a "structural value" as of the same date of \$7,544,392.02.

It appears clearly from Table No.III that the Pacific Company's operations in the territory under consideration during

the years 1911 to 1915, inclusive, have not been financially satisfactory. During none of these years has the Pacific Company earned in excess of 2 per cent on its claimed "structural value" as of December 31, 1915, while in 1913, the company earned less than 1/2 of 1 per cent on said "structural value" as of December 31, 1915.

If it shall hereafter be determined that the amounts claimed by the Pacific Company for depreciation annuity are excessive, the company's financial showing would be to that extent improved.

3. HOME TELEPHONE AND TELEGRAPH COMPANY.

Home Telephone and Telegraph Company was incorporated under the laws of California on September 23, 1902.

The Home Company has an authorized issue of \$3,000,000.00 of common capital stock of the par value of \$100.00 per share and \$3,000,000.00 of preferred capital stock of the par value of \$100.00 per share. The entire authorized capital stock is issued and outstanding. No dividends were paid on Home Company's capital stock during the years 1911 to 1915, inclusive, with the exception of a dividend of 1-1/4 per cent paid in 1915 on the preferred capital stock, amounting to the total sum of \$37,500.00.

Home Company has an authorized issue of \$2,500,000.00, face value, of 5 per cent sinking fund 30-year gold bonds, issued under its first mortgage or deed of trust dated December 31, 1902. Bonds of this issue of the face value of \$466,000.00 have been redeemed, leaving bonds of the face value of \$2,034,000.00 outstanding on December 31, 1915. The deed of trust makes no provision for the redemption of these bonds prior to maturity, other than through the operation of the sinking fund.

The Home Company has also authorized an issue of five million dollars, face value, of 5 per cent 30-year bonds issued under the Home Company's first and refunding mortgage or deed of

trust, dated September 1, 1905. Of the amount thus authorized, bonds of the face value of \$2,500,000.00 are reserved to pay or refund the first mortgage bonds. Bonds of this issue of the face value of \$2,079,000.00 were outstanding on December 31, 1915. The bonds of this issue may be redeemed on and after July 1, 1920, at 105 per cent of their face value. The Home Company has thus outstanding its 5 per cent bonds of both issues of the face value of \$4,113,000.00.

The Home Company desires to convey to the Southern Company the Home Company's entire property, real and personal, tangible and intangible, with the exception of its right to be a corporation, its corporate records, cash, bills receivable and securities on hand. The property thus ^{to be} conveyed by the Home Company consists of property located in the cities of Los Angeles, South Pasadena, Huntington Park and Vernon, and in unincorporated territory in Los Angeles County adjacent to said cities.

Table No. IV shows the entire investment in the Home Company's tangible property and franchises from the beginning to December 31, 1915, as reported by the Railroad Commission's auditing department in Railroad Commission's Exhibit No. 1.

TABLE NO. IV.

Home Telephone and Telegraph Company-- Investment in
Tangible Property and Franchises, Oct. 31, 1915.

	Plant taken over from Empire Cons. Co. as of Oct. 1, 1903.	Expenditure between Oct. 1, 1903 and Dec. 31, 1905	Year to December 31, 1906.	Year to December 31, 1907.	Year to December 31, 1908.	Year to December 31, 1909	Year to December 31, 1910	Year to December 31, 1911	Year to December 31, 1912	Year to December 31, 1913	Year to December 31, 1914	Year to December 31, 1915.	Total
Plant as per Schedule B2	3,199,370.00	1,444,656.11	831,414.80	555,769.94	269,162.53	351,039.16	* 142,548.51	228,641.34	445,744.66	348,004.90	229,823.90	113,791.68	7,869,870.51
Buildings	----	36,704.60	86,977.87	135,901.20	8,737.93	3,303.92	1,110.46	574.62	3,176.10	* 7,591.34	4,408.23	1,842.21	275,145.60
Land	----	101,286.90	3,903.20	692.74	287.90	2,191.23	1,856.57	* 254.97	2,501.18	* 13,870.25	681.05	806.79	100,282.34
Franchises	----	----	--	--	--	--	--	--	--	670.00	--	--	670.00
<u>General Equipment</u>													
Office F & F	---	3,169.91	1,187.56	4,782.33	590.84	415.10	* 13.35	732.93	2,123.82	648.75	951.54	543.22	15,132.65
Stable & Garage	---	--	--	1,946.80	* 250.00	* 298.00	--	3,707.78	16,725.95	4,480.56	509.78	9,743.50	36,566.37
Tools and Implements	---	2,742.78	--	--	--	--	--	--	--	--	2,919.60	1,268.05	6,930.43
	3,199,370.00	1,588,560.30	923,483.43	699,293.01	278,529.20	356,651.41	* 139,594.83	228,401.70	470,271.71	332,342.62	239,294.10	127,995.45	8,304,598.10
Interest during Construction	--	17,779.57	4,882.82	10,711.95	21,367.89	34,326.01	--	--	--	--	10,000.72	22,134.33	69,068.24
Engineering & Sup.	--	44,719.03	33,514.57	13,077.10	15,924.66	17,534.55	13,106.90	--	--	--	10,646.72	9,918.30	158,441.83
Miscellaneous	--	--	6,127.42	6,600.00	--	--	--	--	--	--	--	--	12,727.42
Expenditure each year	3,199,370.00	1,551,058.90	968,008.24	729,682.06	311,821.75	408,511.97	* 126,487.93	228,401.70	470,271.71	332,342.62	249,940.82	137,913.75	8,564,835.59
Total amt. invested at the close of each year on the basis of includo ing the plant taken over from Empire Cons. Co. at book figures		4,850,428.90	5,818,437.14	6,548,119.20	6,863,940.95	7,272,452.92	7,145,964.99	7,374,366.69	7,844,639.40	8,176,981.02	8,426,921.84	8,564,835.59	

* Deficit

Table No. IV shows a total investment, as shown by the Home Company's books, from all sources including the depreciation fund, in the tangible property and franchises of the Home Company as of December 31, 1915, amounting to \$8,564,835.59. This statement assumes the accuracy of the book entry of October 1, 1903, of the sum of \$3,199,370.00 as being the amount paid by the Home Company to the Empire Construction Company for the telephone plant built by Empire Construction Company and sold to the Home Company.

Table No. V shows the total fixed capital and excess of current assets over current liabilities as of December 31, 1915, as shown by the books of the Home Company and the sources from which the funds were derived. This table is Schedule No. A-2 of Railroad Commission's Exhibit No. 1.

Table No. V

Home Telephone and Telegraph Company - Fixed Capital

And Excess of Current Assets Over Current Liabilities,

December 31, 1915, With Sources from Which Funds were Derived

Plant at Los Angeles taken over from Empire Construction Company	3 199 370.00	
Plant at Hollywood taken over from Empire Construction Company	40 000.00	
Expenditure on Additions between October 1st, 1903, and Dec. 31, 1915.	5 325 465.59	
 Total Fixed Capital		8 564 835.59
 Current Assets	532 128.13	
Less Current Liabilities	<u>241 027.73</u>	291 100.40
 Expenses of Bond Issue		<u>9 543.50</u>
 Total Investment		8 865 479.49
 Funds raised as follows		
from issue of Bond and Capital Stock, as detailed on Schedule		
 Consideration in Property	3 239 370.00	
" " Cash	<u>3 450 325.20</u>	
		6 689 695.20
 The following amounts set aside out of Profits and invested in the business:		
 Reserve for Depreciation	1 892 776.56	
Amortization of Bond Discount	92 181.40	
Amortization of Intangible Capital	1 320.00	
Sinking Fund Reserve	<u>20 565.00</u>	
		2 006 842.96
 Corporate Surplus as per books	1 055 941.33	
Less Amount credited there- to in 1915 but not received in Cash	<u>125 568.06</u>	930 373.27
 Total Cash and Property Received		9 626 911.43
 Deduct-Cash paid for \$887 000 Bonds cancelled		761 431.94
Leaving amount invested in the business		8 865 479.49

Table No. VI shows the capital stock and bonds issued by Home Company, the consideration received therefor in property and in cash and the discount on the bonds and capital stock, all as shown on the Home Company's books. This table appears as Schedule C in Railroad Commission's Exhibit No. 1.

Table No. VI

HOME TELEPHONE AND TELEGRAPH COMPANY - CAPITAL STOCK AND BONDS ISSUED,

CONSIDERATION RECEIVED THEREFOR, AND DISCOUNT

DECEMBER 31, 1916

Issued to	ISSUED				CONSIDERATION		DISCOUNT			
	BONDS		CAPITAL STOCK		Property	Cash	BONDS		CAPITAL STOCK	
	First Mortgage	Refunding	Preferred	Common			First Mortgage	Refunding	Preferred	Common
Empire Cons. Co., Plant at L.A.	1 600 000		1 600 000		3 199 370	630.00				
" " " " Hollywood	32 000		8 000		40 000					
" " " " "			100 000			39 600.00			604.00	
L.O. Torrence (Contract 12/9/03)	200 000		200 000			210 000.00			1 900.00	
Western Trust Co. " 5/6/04	550 000		550 000			632 500.00			4 675.00	
Automatic Elec. Co. Material	46 000					41 400.00	4 600			
Adams-Phillips Co.	72 000		42 000			78 000.00			360.00	
" "		1 000 000		1 000 000		900 000.00		100 000.00		1 000 000.00
Union Stock & Bond Co.		786 000	195 000	1 047 900		824 400.00		78 600.00	760.00	1 047 900.00
Leo Keller		2 000				2 000.00				
E. F. Powers		25 000		33 300		22 500.00		2 500.00		33 300.00
J. Nightingale				3 000		412.50				2 587.50
H. M. Porter			100 000			60 611.00			393.89	
W. E. Porter		58 000		25 000		51 820.00		6 180.00		25 000.00
J. H. Adams & Co.		586 000	200 000	690 800		550 189.20		143 655.80	1 437.00	839 255.00
Curtis			5 000			2 700.00			23.00	
F. J. Stillson		3 000				2 242.50		757.50		
Mrs. Snyder		1 000				760.00		240.00		
E. F. Powers		7 000				5 285.00		1 715.00		
J. J. Doran		32 000				25 275.00		6 725.00		
	2 500 000	2 500 000	3 000 000	3 000 000	3 239 370	3 450 325.20	4 600	340 373.30	10 172.89	2 948 042.50

Table No. VI -A- shows the variations in the quotations of the Home Company's bonds and capital stock, quarterly, from January, 1905 to October, 1916, on the Los Angeles Stock Exchange, as shown by Exhibit No. 33 of Petitioners.

TABLE NO. VI -A-

Bonds and Capital Stock of Home Telephone and Telegraph Company - Quarterly Quotations - January 3, 1915. to October 1, 1916.

	<u>First Mortgage Bonds</u>	<u>Refunding Mortgage Bonds</u>	<u>Ordinary Stock</u>	<u>Common Stock</u>
<u>1905</u>				
January 3,	: 84-1/2 - 85		47.50 - 50	
April 1	: 90-1/2 - 91		49 - 50.50	
July 1	: 95 - 97		69 - 73	
October 2	: 94-3/4 - 96		68.62 - 70	
			<u>Preferred Stock</u>	
October 19	: 94 - 96	92 - 95	68-1/2 - 72	29 - 40
<u>1906</u>				
January 2	: 94 - 97	-97	63-1/2 - 65-1/2	29 - 30-1/2
April 1	: 96-3/8 - 98	91-1/2-93	66 - 66-3/4	24 1/2 - 27
July 2	: 93 - 96 1/2	-93	59 - 61	18 - 25
October 1	: 90 1/2 - 93 1/2	82-1/2-84 1/2	60 - 65	20 1/2 - 24
<u>1907</u>				
January 2	: 90 1/2 - 93	81 1/2 - 88	65 1/2 - 66 1/2	25 - 29
April 1	: 89 - 91 1/2	-81	63 - 66	23 1/2 - 30
July 1	: 84 - 91	-82	- 60	
October 1	: 81 - 90	-87	54 - 55	- 21
<u>1908</u>				
January 2	: 76 - 81		50-3/4 - 51-1/4	- 15
April 1	: 75 1/2 - 82	-75	46-1/2 - 47-1/2	3 - 10
July 1	: 78 1/2 - 82 1/2		48 - 49	7 1/2
Sept. 8	:			
Sept. 10	:			
October 1	: 79 - 81	68 - 70	46 - 47	8 - 12
<u>1909</u>				
January 4	: 88 - 92	77 - 79	53-3/4 - 54 1/2	9 - 16
April 1	: 90 - 92 1/2	75 - 77	57 1/2 -	13 - 17
July 1	: 91 - 92 1/2	82 1/2 - 83 1/2	58 1/2 -	11-3/8 - 12 1/2
October 1	: - 91	-82	59-3/8 - 61	10 - 12 1/2

N.G.M.

	<u>First Mortgage</u>	<u>Refunding Mortgage</u>	<u>Preferred Ordinary Stock</u>	<u>Common Stock</u>
<u>1910</u>				
January	3: 85 - 88	76 - 80	53-3/4 - 54 1/2	9 - 11
April	1: 85 - 88	73 1/2 - 74	53 1/2 - 54	- 9
July	1: - 81	70 - 75	36-5/8 - 36-7/8	6 - 7
October	1: 80 - 82	67 1/2 - 72	25 - 33	4-3/4 - 5 1/2

	<u>First Mortgage</u>	<u>Refunding Mortgage</u>	<u>Preferred Stock</u>	<u>Common Stock</u>
<u>1911</u>				
January	3: 82 1/2 - 87	- 73	30 1/2 - 31 1/2	3 1/2 -
April	1: 82 1/2 - 86	72 - 75	32 -	4 1/2 -
July	1: 83 1/2 - 85	73 1/2 - 74 1/2	35 - 37	6 1/2 - 7
October	2: 83 - 84 1/2	- 75	25 1/2 - 26 1/2	5 - 8 1/2

<u>1912</u>				
January	2: - 90	- 81	35 - 35 1/2	7 1/2 - 9 1/2
April	2: - 88	78 - 80 1/2	- 31	5-1/8 - 5 3/4
July	1: 85 - 88	79 - 81 1/2	29 1/2 - 31 1/2	6 -
October	1: 86 1/2 - 88	- 82 1/2	26 1/2 - 29	7 - 8

<u>1913</u>				
January	2: 86 - 87 1/2	80 1/2 - 81 1/2	28 1/2 - 29	7 - 11 1/2
April	1: 85 1/2 - 86 1/2	78 -	25 - 27-7/8	11 - 13
July	1: 78 1/2 - 80	- 77 1/2	22 - 30	6 - 11
October	1: 78 - 81	75 - 77	21 -	6 - 10 1/2

<u>1914</u>				
January	2: 80 1/2 -	72 1/2 -	- 25	- 10
April	1: 83 1/2 - 85	74 - 76	25 - 30	7 1/2 - 10
July	1: 80 - 83	70 - 72 1/2	21 1/2 - 25	6 - 8 1/2
July	30: 80 - 83	70 - 75	21 1/2 - 24	6 -

Exchange Closed

Dec.	7: 79 1/2 - 82	70 1/2 - 75	22 - 25	
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<u>1915</u>				
January	4: 80 -	71 -	24 1/2 -	6 1/2 - 9 1/2
April	1: 84 1/2 -	76 - 82	30 - 35	15
July	1: 85 1/2 -	76 1/2 - 78	35 1/2 - 36	12
October	1: 89 - 91	82.75	58 - 60	20

<u>1916</u>				
January	3: 90 - 91	83 -	59 - 62	22 1/2 -
April	1: 90 - 94	87 1/2 -	65 - 70	32 1/2 - 34
July	1: 93 1/2 - 94 1/2	89 - 91	70 -	39 1/2 -
October	2: 95 1/2 -	92 1/2 - 93 1/2	76-7/8 - 77 1/2	43 - 44

Public announcement of the proposed consolidation was made in Los Angeles ⁱⁿ April, 1916. That some such plan was being worked out was quite generally known some little time prior to April, 1916. The stock and bond quotations of the Los Angeles Stock Exchange show that some factor was working to cause advances in the sale price of the Home Company's stock and bonds during approximately one year prior to April, 1916.

The price at which public utility stock and bonds sell in the market, particularly securities issued prior to public regulation and supervision, frequently have but little bearing on the intrinsic value of the property. It is interesting, however, to note that on the basis of the sale prices of the stocks and bonds of the Home Company on or about December 31, 1914 as shown by Exhibits No. 32 and 33 of Petitioners, the value of the Company's property was approximately \$4,125,000.00.

If we assume the same basis, the value of the property as of December 31, 1915 had increased to \$6,163,435.00. Even this sum is approximately \$1,500,000.00 less than the sum of \$7,711,000.00 which is claimed by petitioners herein to be the value of the Home Company's property on the same date, namely December 31, 1915. This condition will receive due consideration in reaching a conclusion as to the amount of securities which the Southern Company may be permitted to issue in exchange for the properties to be acquired by it.

The Pacific Company presented an inventory of the Home Company's property and estimates of the "actual performance value" and the "structural value" of the property, as of December 31, 1915, prepared in the same manner in which the inventory and appraisal of the Pacific Company's property were prepared. The Railroad Commission's engineering department also prepared an inventory of the Home Company's property and an estimate of the "reproduction cost" and of the "reproduction cost less depreciation" of the property, as of December 31, 1915, prepared in the same manner in which the department prepared its inventory and appraisal of the Pacific Company's property.

Although the Pacific Company and the Railroad Commission's engineering department were in substantial accord, after exhaustive inquiry, with reference to the inventory of the Pacific Company's property, there is a substantial difference between them with reference to the inventory of the Home Company's property. This difference is accounted for partly by the fact that the inventories were originally prepared as of a different date and partly by the fact that Pacific Company's engineers were unable to devote to the inventory of the Home Company's property the same detailed and painstaking care which they gave to the inventory of the Pacific Company's property. The Home Company's engineers and the Railroad Commission's engineers are in accord with reference to the inventory/presented by the Railroad Commission's engineers of the Home Company's property.

Table No. VII is a comparative table showing with reference to the property to be sold by the Home Company the Pacific Company's estimate of the "actual performance value" and the "structural value" and the Railroad Commission's engineering department's estimate of "reproduction cost" and of "reproduction cost less depreciation," as December 31, 1915.

TABLE NO. VII.

ENGINEERING ESTIMATES, PHYSICAL PROPERTY TO BE SOLD BY HOME TELEPHONE AND TELEGRAPH COMPANY TO SOUTHERN CALIFORNIA TELEPHONE COMPANY.

December 31, 1915.

	Railroad Commission's Engineering Department.			Railroad Commission's Engineering Department.		
	Pacific Com- pany Actual Performance Value Dec. 31, 1915	Reproduction Cost New Dec. 31, 1915	Difference between Col- ums 1 and 2	Pacific Com- pany struc- tural Value Dec. 31, 1915	Reproduction Cost less Depreciation Dec. 31, 1915.	Difference between Col- ums 4 and 5.
OPERATIVE PROPERTY						
T- 1 201 Organization		4,107.00	* 4,107.00		4,107.00	* 4,107.00
T- 2 202 Franchises						
T- 3 207 Right of way	50,627.61	42,434.58	8,393.03		42,434.58	* 42,434.58
T- 4 211 Land	344,844.63	291,110.00	53,734.63	344,844.63	291,110.00	53,734.63
T- 5 212 Buildings	329,372.88	320,810.00	8,562.88	286,554.41	278,214.00	8,340.41
T- 6 221 Central Office Telephone Equipment	2,142,094.22	1,996,292.61	145,801.61	1,906,463.84	1,562,179.13	344,284.71
T- 7 222 Other Equipment of Central Offices	6,965.74	5,949.00	1,016.74	6,199.51	4,462.00	1,737.51
T- 8 231 Station Apparatus	795,438.62	773,851.52	21,587.10	676,122.83	658,877.00	17,245.83
T- 9 232 Station Installations	223,860.27	218,350.00	5,510.27	190,281.23	185,948.00	4,333.23
T-10 233 Interior Block Wires		3,568.00	* 3,568.00		2,319.00	* 2,319.00
T-11 234 Private Branch Exchanges	233,706.08	231,604.56	2,101.52	198,650.17	185,434.24	13,215.93
T-12 235 Booths and Special Fittings						
T-13 241 Exchange Pole Lines	763,785.58	758,661.00	5,124.58	610,959.69	644,860.00	* 33,900.11
T-14 242 Exchange Aerial Cable	896,533.10	954,746.00	* 38,212.90	735,157.14	710,405.00	24,752.14
T-15 243 Exchange Aerial Wire	593,785.29	510,915.00	72,870.29	496,217.50	364,673.00	131,544.50
T-16 244 Exchange Underground Conduits	711,469.57	724,451.00	* 12,981.43	690,125.48	615,784.00	74,341.48
T-17 245 Exchange Underground Cable	1,159,787.32	1,202,950.00	* 43,162.68	1,101,797.94	998,448.00	103,349.94
T-19 251 Toll Pole Lines		3,145.00	* 3,145.00		2,673.00	* 2,673.00
T-21 253 Toll Aerial Wire		16,532.00	* 16,532.00		12,399.00	* 12,399.00
T-25 261 Office Furniture and Fixtures	20,816.80	20,849.00	* 32.20	15,612.60	15,637.00	* 24.40
T-26 262 General Shop Equipment	12,737.66	12,427.00	310.66	8,279.48	8,699.00	* 419.52
T-27 263 General Store Equipment	459.21	435.00	64.21	324.49	304.00	* 20.49
T-28 264 General Stable and Garage Equipment	31,375.66	31,422.11	* 46.45	20,394.18	20,424.00	* 29.82
T-29 265 General Tools and Implements	8,224.21	7,600.00	624.21	5,345.74	5,320.00	25.74
T-30 268 Interest During Construction	37,638.67		37,638.67	33,122.03		33,122.03
T-32 --- Materials and Supplies on Hand for use in California	404,877.94	404,877.94		384,634.04	404,877.94	* 20,243.90
GRAND TOTAL	8,758,641.06	8,517,088.32	241,552.74	7,711,087.13	7,019,588.69	691,498.24
Total Nonoperative Property (not included in above totals)		116,359.00	* 116,359.00		101,278.00	* 101,278.00
Total Operative and Nonoperative Property	8,758,641.06	8,633,447.32	125,193.74	7,711,087.13	7,120,866.69	590,220.24

*Railroad Commission's Engineering Department in excess of Pacific Company.

Table No. VII shows the entire physical property and franchises of the Home Company without deduction by reason of duplication of plan as between the Home Company and the Pacific Company.

Subsequent to the hearing herein, the Pacific Company's representatives drew our attention to the fact that the additions and betterments to the property of the Home Company reported in the Pacific Company's appraisal, for the additions and betterments during the year 1915, were gross additions and betterments and not net additions and betterments, as intended. While the gross additions and betterments for 1915 were reported to be \$352,353.87, the net additions and betterments were only \$137,913.75. The "actual performance value" of the Home Company's property as of December 31, 1915, should accordingly be reduced from \$8,758,641.06 to \$8,544,200.92 and the "structural value" from \$7,711,087.13 to \$7,522,292.68.

Table No. VIII shows the revenues and expenses of the Home Company during the calendar years 1911 to 1915, inclusive, as reported in Petitioners' Exhibit No. 13.

Table No. VIII

HOME TELEPHONE AND TELEGRAPH COMPANY EARNINGS AND EXPENSES, 1911 TO 1915, INCLUSIVE, DIVS.
 AS PRESENTED IN PETITION IN EQUITY NO. 13.

	1911	1912	1913	1914	1915
#300-Telephone Operating Revenues	\$1,285,343.65	\$1,500,720.65	\$1,705,094.04	\$1,915,904.28	\$2,042,111.72
301-Telephone Operating Expenses	881,529.74	1,105,492.34	1,216,113.51	1,474,416.33	1,413,061.06
Net Tel. Operating Revenues	403,813.91	395,228.31	489,980.53	441,485.95	629,050.66
304-Uncollectible Operating Revenues				12,852.17	18,361.93
305-Taxes Assignable to Operations	79,774.24	66,818.49	88,732.66	97,559.38	117,686.47
Deductions from Net Opr. Revenue	79,774.24	66,818.49	88,732.66	110,411.55	136,048.40
Operating Income	324,039.67	328,409.82	401,247.87	331,074.40	493,002.26
Non-Operating Revenues					
311-Miscellaneous Rent Revenues	8,011.72	13,780.00	14,405.00	6,581.75	6,547.50
313-Interest Revenues					4,888.71
316-Miscellaneous Non-Opr. Revenues					135.53
Total Non-Operating Revenues	8,011.72	13,780.00	14,405.00	6,581.75	11,571.74
Non-Operating Revenue Deductions					
322-Non-Operating Taxes	3,000.00	3,000.00	3,000.00	3,000.00	2,400.00
Deductions from Non-Opr. Revenue	3,000.00	3,000.00	3,000.00	3,000.00	2,400.00
Non-Operating Income	5,011.72	10,780.00	11,405.00	3,581.75	9,171.74
Gross Income	329,051.39	339,169.82	412,652.87	334,656.15	502,174.00
Deductions from Gross Income					32.60
332-Rev. Deductions for Conduits, Poles etc.					208,100.00
335-Interest Deductions for Funded Debt	211,021.27	224,746.72	219,950.00	213,225.00	2,837.81
336-Other Interest Deductions	33,000.00	22,500.00	30,000.00	16,800.00	8,742.60
338-Amort. Debt, Disc. & Expense			74,696.20	8,742.60	660.00
340-Amort. of Landed Capital				660.00	660.00
Total Deductions from Gross Income	244,021.27	247,246.72	324,646.20	239,427.60	220,373.01
Net Income	85,030.12	91,943.10	88,006.67	95,228.55	281,800.99
350-Approp. of Income to Sinking Funds	85,030.12	91,943.10	88,006.67	86,037.40	84,916.19
351-Dividend Approp. of Income					37,500.00
Total Appropriation of Income	85,030.12	91,943.10	88,006.67	86,037.40	122,416.19
Amount Transferred to Cr. Corp. Surplus-				9,191.15	159,384.60
Balance Dec. 31st of Previous Year-	5,021.51	5,021.51	5,021.51	5,021.51	5,021.51
#400-Credit Bal. Transferred from Inc. Acct.				9,191.15	159,384.60
401-Miscellaneous Additions to Surplus					691,535.02
Total Additions				14,212.66	1,055,941.33
413-Realized Depreciation Not Covered by Reserves				9,191.15	
Balance Carried Forward to Credit Side of Balance Sheet	5,021.51	5,021.51	5,021.51	5,021.51	1,055,941.33

Account No. 301, telephone operating expenses, in Table No. XIII, includes the amounts set aside annually by the Home Company for depreciation annuity. The testimony shows that, in general, after providing for maintenance and operating expenses, bond interest and sinking fund, the Home Company has placed its remaining profits into depreciation reserve. The amounts thus set aside were less than 6-1/2 per cent of the depreciable property. The amounts set aside in depreciation reserve were invested in the property.

The item of \$891,535.02 appearing in the year 1915 under Account No. 401, miscellaneous additions to surplus, consists principally of an item of \$887,000.00, which prior to 1915 was carried in the "bond cancelled account" and transferred in 1915 to the "corporate surplus and deficit account". By letter of June 26, 1916, the Railroad Commission's auditing department advised the Home Company that the transfer of this item to surplus is not correct and that the money should be set up in a separate account entitled "funded debt retired through income and surplus." The result will be to show a balance carried forward to the credit side of the balance account for the year ending December 31, 1915, of \$168,941.33 instead of the item of \$1,055,941.33 shown for the year 1915, in Table No. VIII.

It will be observed from Table No. VIII that the financial showing of the Home Company has been much better during the years 1911 to 1915, inclusive, than the financial showing of the Pacific Company in its Los Angeles operations during the same period. With the exception of the year 1914, the financial showing of the Home Company improved progressively, year by year, from 1911 to 1915.

Railroad Commission's Exhibit No. 1 shows the revenues and expenses of the Home Company during the entire period from

October 1, 1903, to December 31, 1915, and shows that during this period the company made a total profit, before charging depreciation, of \$6,937,071.28.

4. SOUTHERN CALIFORNIA TELEPHONE COMPANY.

In order to effect a consolidation of their telephone properties in the area herein under consideration, the Home Company and the Pacific Company have caused the incorporation of Southern California Telephone Company, herein referred to as the Southern Company.

The Southern Company was incorporated under the laws of California on April 15, 1916, for the purpose, among others, of transacting a telephone and telegraph business in the City of Los Angeles and incorporated and unincorporated territory adjacent thereto. The term of incorporation is 50 years. The articles of incorporation authorize the issue of 100,000 shares of common capital stock of the par value of \$100.00 each, having a total par value of \$10,000,000.00. Seven hundred and fifty shares, having a par value of \$75,000.00, have been subscribed for.

Of the authorized capital stock, the Southern Company has issued only seven shares, one share to each of seven directors.

The Southern Company desires to authorize a bonded indebtedness under a deed of trust or mortgage which it intends to execute to Los Angeles Trust & Savings Bank. A copy of the proposed deed of trust or mortgage was introduced herein as Exhibit No. 23 of Petitioners. The bonds are to be 30-year 5 per cent gold bonds, of the face value of \$1000.00 each, of the aggregate face value of \$12,000,000.00 with authority to issue additional bonds in excess of the face value of \$12,000,000.00 to an amount or amounts in face value not ex-

ceeding in the aggregate 75 per cent of the further actual and reasonable expenditures to be made by the Southern Company for permanent extensions, enlargements and additions to its plants, properties and equipment. Bonds of the face value of \$4,113,000.00 are to be reserved for the retirement of the outstanding bonds of the Home Company. Bonds of the face value of \$5,814,000.00 shall forthwith be issued by the Southern Company and delivered by the trustee upon written order of the Southern Company; these bonds being presumably the bonds necessary to be issued by the Southern Company to acquire the properties of the Home Company and the Pacific Company.

Petitioners ask authority for conveyances of property and issues of securities, to effect a consolidation, in the manner which will now be described.

The Home Company is to convey to the Southern Company its entire properties, real and personal, tangible and intangible, except its corporate franchises, corporate records, cash, bills receivable and securities on hand.

The Pacific Company is to convey to the Southern Company and Eagle Rock the entire property operated by it in ~~its~~ its Los Angeles exchanges, real and personal, tangible and intangible, except the toll lines.

The Southern Company is to issue its securities in exchange for said property, as follows:

(1) To Home Company.

The Southern Company is to issue to the Home Company in exchange for the property to be conveyed by the Home Company, 5 per cent bonds of the Southern Company, which bonds are to be issued at 91 1/2 per cent of their face value and to total the sum of \$8,427,000.00. The Southern Company is to issue to the Home Company additional bonds, also at 91 1/2 per cent of their face value, for the additions and betterments to the Home Company's property between December 31, 1915 and the date of the

transfer and the Home Company's accounts receivable at the date of the transfer. Exhibit No. 26 of Petitioners shows net additions to plant, equipment, materials and supplies of the Home Company from December 31, 1915, to August 31, 1916, amounting to \$174,454.82 and accounts receivable amounting to \$51,797.58, or a total of \$226,252.40, against which the Southern Company is to issue its ^{bonds} of the face value of \$247,000.00.

The parties hereto have agreed that the Pacific Company shall guarantee the payment of principal and interest of all bonds issued by the Southern Company to the Home Company. A copy of the proposed agreement of guarantee by the Pacific Company was filed herein as Exhibit No. 24 of Petitioners.

(2) To Pacific Company.

The Southern Company is to issue to the Pacific Company in exchange for the property to be conveyed by the Pacific Company, 5 per cent bonds of the Southern Company of the face value of \$1,500,000.00, issued at 91-1/2 per cent of their face value and common capital stock of the par value of \$6,171,500.00.

The Southern Company is also to issue to the Pacific Company, at par, its capital stock to pay for additions and extensions of the Pacific Company's property between December 31, 1915 and the date of the transfer and for the Pacific Company's accounts receivable at the time of the transfer. Exhibit No. 26 of Petitioners shows net additions to plant, equipment, materials and supplies of the Pacific Company from December 31, 1915, to August 31, 1916, amounting to \$161,839.39, construction work in progress amounting to \$25,077.19 and accounts receivable amounting to \$98,429.68, or a total of \$285,400.26, against which total the Southern Company is to issue its capital stock of the par value of \$285,400.00, as of August 31, 1916.

The Southern Company is also to sell to the Pacific

Company its capital stock of the par value of \$150,000.00 for \$150,000.00 in cash, to be used by the Southern Company as working capital. This capital stock of the par value of \$150,000.00 includes \$74,300.00 out of a total of \$75,000.00, par value, of the capital stock of the Southern Company subscribed for as shown in the Southern Company's articles of incorporation.

The Southern Company also asked ratification of its action in delivering one share of its capital stock to each of its seven directors.

In Exhibit No. 18, Petitioners allege that the assets and liabilities of the Southern Company as of December 31, 1915, would be, in effect, as follows:

A s s e t s.

Property from the Pacific Company (structural value)	\$7,544,392.02
Property from the Home Company " "	7,711,087.15
Cash from sale of stock	150,000.00
Stock to directors	700.00
Discount on bonds	<u>843,020.83</u>
	\$16,249,200.00

L i a b i l i t i e s.

Capital stock issued to Pacific Company for property.....	\$ 6,171,500.00
Capital stock sold for working capital.....	150,000.00
Capital stock to directors.....	700.00
Bonds to Pacific Company.....	1,500,000.00
Bonds to Home Company.....	<u>8,427,000.00</u>
	\$16,249,200.00

On the basis of the estimated cost to reproduce new less depreciation of the physical property and franchises as reported by the Railroad Commission's engineering department in Railroad Commission's Exhibits Nos. 2 and 3, the assets of the Southern Company would be as follows:

Property from Home Company.....	\$7,120,866.89
Property from Pacific Company.....	6,717,418.55
Cash from sale of stock.....	150,000.00
Stock to directors	700.00
Discount on securities	2,260,214.56

Further reference to this matter will be made hereinafter in connection with the subject of the securities to be authorized herein.

5. CONDITIONS AFTER CONSOLIDATION.

We shall discuss the conditions after consolidation under the following heads:

- (a) Service.
- (b) Rates.
- (c) Revenues and expenses.
- (d) Securities.

(a) Service.

The Southern Company proposes to combine the two existing telephone systems and to operate them as a single property in such a way that all subscribers of the Home Company and the Pacific Company will be able to converse with all other subscribers of these two companies and so that all subscribers of each of these companies will be able to converse over the long distance telephone lines both of the Pacific Company and of the United States Long Distance Telephone and Telegraph Company.

At the present time, a subscriber of the Pacific Company can converse only with other subscribers of the Pacific Company and a subscriber of the Home Company only with other subscribers of the Home Company, in so far as local exchange service is concerned. As far as long distance service is concerned, a subscriber

of the Pacific Company can, ^{in general,} converse only over the long distance lines of the Pacific Company and a subscriber of the Home Company ^{in general,} can, converse only over the long distance lines of United States Long Distance Telephone and Telegraph Company.

The Southern Company proposes to permit each subscriber to retain either the Pacific instrument or the Home instrument, as he may prefer. With the exception of certain districts in which there is available plant equipment only of the one existing company or the other; the Southern Company proposes to permit each new subscriber to select either the manual service or the automatic service. The Southern Company proposes to permit each subscriber to use the long distance lines either of the Pacific Company or of the United States Long Distance Telephone and Telegraph Company, as he may prefer.

In other words, the Southern Company proposes to connect an automatic system with a manual system, to give its subscribers absolute liberty of choice as between the two, and to operate the systems thus connected as a single unified whole.

As far as the subscribers are concerned, the result will be, first, that they will secure a very much enlarged service by reason of being able to converse with all subscribers of both systems, and, second, that they will be able to eliminate the duplicate telephone stations. Petitioners herein report that on May 1, 1916, there were 18,684 duplicate telephone stations in the territory here under consideration. Petitioners estimate that in some instances, by reason of the extent of the subscriber's business, he may desire to retain both telephone stations and that the total number of telephone stations which will be eliminated by reason of duplication will be approximately 15,000. Petitioners further represent that the saving which will result to the present subscribers of the Pacific Company and the Home Company by reason of the elimination of duplicate telephone stations will be approximately \$483,000.00 annually.

Petitioners report that the method of operating the consolidated system will be as follows:

Local Service.

Pacific to Pacific:

This service will be handled as at present.

Home to Home:

This service will be handled as at present.

Pacific to Home:

All Pacific "A" operators will be furnished with automatic dials and with trunk lines leading to an adjoining automatic office. To complete a call to a Home subscriber, the operator will plug in on one of these trunk lines and call on her dial the number of the automatic line desired in the manner employed by the Home Company at the present time.

Home Automatic to Pacific:

A Home automatic subscriber desiring a connection with a Pacific subscriber will dial an universal digit. This will give him connection with an "A" operator in an adjacent Pacific office. The subscriber will then give the desired number to this "A" operator, who will either complete the connection in the multiple or will trunk it over the Pacific trunk system, in a manner similar to that now employed by the Pacific Company.

Home Manual to Pacific:

Trunk lines will be provided between the Home Company's Olive office (this being the Home Company's one manual office) and the various Pacific offices, and calls will be handled in the same manner in which manual calls are handled in Los Angeles at present.

Toll Service.

Pacific to Pacific Long Distance and Two Number:

This service will be handled as at present.

Home to United States Long Distance:

This service to be handled as at present.

Pacific to United States Long Distance:

Recording and toll switching trunk lines will be provided between all Pacific offices and the United States Long Distance Company's toll board. Long distance calls will be recorded and completed over these trunk lines in the manner usual in manual operation as at present in effect in Los Angeles.

Home Manual to Pacific Long Distance:

Recording and toll switching lines will be provided between Home Company's Olive office and the Pacific Company's toll board. Long distance calls will be recorded and completed over these trunk lines in the same manner in which the Home Company's manual calls are at present handled with the United States Long Distance Company.

Home Automatic to Pacific Long Distance:

An automatic subscriber of the Home Company desiring a connection with a telephone station over the long distance lines of Pacific Company will dial a special number. He will thus be connected to a Pacific recording operator in exactly the same manner in which an automatic subscriber of the Home Company now secured a recording operator of the United States Long Distance Telephone and Telegraph Company. When the calling subscriber's call has been recorded, he will be requested to hang up and will be picked up by the toll operator by means of a dial; the remainder of the operation being conducted as is usual in manual operation.

Home Manual to Pacific Two Number:

Two number recording trunk lines will be provided between the Home Company's manual office and the Pacific Company's two number positions. Such calls will be handled in the same manner as similar calls originating on the Pacific Company's lines.

Home Automatic to Pacific Two Number:

An automatic subscriber of the Home Company desiring a two number connection over the Pacific Company's toll lines will dial a special number which will connect him to the regular two number positions. After the calling subscriber's call has been recorded, he will be requested to hang up and will be picked up by the two number operator by means of a dial, the remainder of the operation being in the manner usual in manual operating.

In Table No. IX, Petitioners report that the total cost of connecting up the two systems will be \$709,660.00, of which amount \$509,910.00 is necessary to consolidate the properties and \$199,750.00 is required for additional facilities.

TABLE NO. IX.

SUMMARY OF COST OF CONSOLIDATING PLANT AND EQUIPMENT
OF HOME TELEPHONE AND TELEGRAPH COMPANY AND
THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY
IN AND ABOUT LOS ANGELES.

	<u>Amount Chargeable to Con- solidation</u>	<u>Amount not Chargeable to Con- solidation</u>	<u>Total</u>
Tie cables between various Pacific Offices and nearby Home Offices	\$60,275.00	\$39,700.00	\$99,975.00
Trunks between Olive (Home) and various Pacific Offices	24,500.00	32,000.00	56,500.00
Additions to Pacific Trunking System	82,650.00	86,050.00	168,700.00
Additions to Home Trunking System	86,800.00	24,000.00	110,800.00
Central Office Equipment Pacific Offices	85,040.00	18,000.00	103,040.00
Central Office Equipment Home Offices	104,225.00	-	104,225.00
Consolidation of Private Branch Exchanges	9,500.00	-	9,500.00
Additions to Pay Station Equipment	<u>1,000.00</u>	<u>-</u>	<u>1,000.00</u>
Total	\$453,990.00	\$199,750.00	\$653,740.00
 <u>Rearrangements</u>			
Removal of Duplicate Substation Equipment	18,750.00	-	18,750.00
Consolidation of Private Branch Exchange Equipment	7,745.00	-	7,745.00
Cutting Pay Stations to Pacific Co's Offices	2,000.00	-	2,000.00
Central Office Equipment	5,425.00	-	5,425.00
Temporary Changed Number Equipment	<u>5,000.00</u>	<u>-</u>	<u>5,000.00</u>
Total	\$38,920.00	-	\$38,920.00

TABLE NO. IX (CONT'D)

	<u>Amount Chargeable to Con- solidation</u>	<u>Amount not Chargeable to Con- solidation</u>	<u>Total</u>
<u>Commercial Costs</u>			
Duplicate Subscribers' Canvass	\$4,000.00	-	\$4,000.00
Resetting Directories	<u>3,000.00</u>	<u>-</u>	<u>3,000.00</u>
Total	\$7,000.00	-	\$7,000.00
 <u>Traffic Costs.</u>			
Training Operators and Miscellaneous traffic Expense	\$10,000.00	-	\$10,000.00
 Grand Total	 \$509,910.00	 \$199,750.00	 \$709,660.00

Petitioners represent that the sum of \$709,650.00 to be expended in consolidating the properties of the two existing systems will be secured by advances from the Pacific Company to the Southern Company and the purchase of capital stock of the Southern Company by the Pacific Company at par and not by an issue of bonds by the Southern Company.

Both the Home Company and the Pacific Company insist that there is no inherent operating difficulty in connecting up an automatic and^a/manual system and they further insist that the service over such consolidated system will be entirely satisfactory.

Mr. Leo. Keller, chief engineer of the Home Company, testified that the service which the Southern Company proposes to give will be the same thing, except on a larger scale, as the service which the Home Company has itself been giving between its automatic subscribers and its manual subscribers. He testified that with the exception of a delay not exceeding two or three seconds in connection with certain calls under the proposed consolidation, the service which will be rendered by the Southern Company will be equally as good as the service which the Home Company has been rendering in Los Angeles. Mr. Keller testified that although he preferred the automatic system and believed that the telephone development of the future lies more along the lines of automatic service than of manual service he believed that by reason of the large expenditures which it would be necessary to incur at the present time to convert the entire Pacific system in its Los Angeles exchange into an automatic system, it would be better to adopt the plan of consolidation worked out by the Pacific Company and the Home Company and hereinbefore explained.

The order herein will contain a number of conditions bearing on the service to be rendered by the Southern Company.

One condition will provide that the Southern Company shall give to both present and future subscribers absolute freedom of choice as between the automatic and the manual instrument, unless relieved in special cases by the Railroad Commission.

The result of this condition ^{should} ~~xxx~~ be that the instrument which is really the best for the public will survive. The result thus to be secured from this telephone experience of Los Angeles should be of very great value in solving telephone problems all over the United States.

Another condition will provide that the Southern Company shall keep daily trouble records, separately for manual and automatic subscribers, which records shall be open at all times to inspection by representatives of the Railroad Commission. The purpose of these records will be to assure good service over both manual and automatic instruments and to make sure that the Southern Company uses equal effort to maintain good service to all its subscribers.

A number of conditions in the order will refer to long distance service. Each subscriber of the Southern Company should have absolute freedom of choice in long distance telephoning between the toll lines of the Pacific Company and of the United States Long Distance Telephone and Telegraph Company. A number of independent telephone companies owning exchanges in Los Angeles County expressed fears with reference to the effect of the proposed consolidation on their business. Whereas a number of these companies have heretofore had access only to a portion of the telephone subscribers in

Los Angeles, they will henceforth have access to all such subscribers, whether their telephone instruments are manual or automatic. To this extent, the financial condition of these companies will be improved. The chief fear of these companies seemed to be that the long distance lines of the United States Long Distance Telephone and Telegraph Company might become overloaded by reason of increased business and that the service would thus deteriorate. In answer to these fears we may draw attention to the fact that the United States Company is subject to the Railroad Commission's jurisdiction and that the Railroad Commission would not hesitate to take all necessary means to compel a continuation of good service if any dereliction of duty in this respect should arise. The order will contain appropriate conditions to protect and safeguard long distance service.

In reply to a question by representatives of the Independent Companies with reference to the continued distribution to them of telephone directories showing the telephone subscribers in Los Angeles and elsewhere, the representatives of the Southern Company stated that the existing practice will be continued.

The articles of incorporation of the Southern Company provide that the corporation's principal place of business shall be in Los Angeles. Some fear having developed, that the principal office might hereafter be removed from Los Angeles, the representatives of the Southern Company stipulated that the office will not be moved. One of the conditions in the order will refer to this matter.

(b) Rates.

The local exchange rates of the Pacific Company and the Home Company in the City of Los Angeles are prac-

tically the same for each company and were established, with certain minor exceptions, by Ordinance No. 32515 (New Series), adopted by the City Council of Los Angeles on June 16, 1915, approved on June 18, 1915, and effective on July 1, 1915.

The rates for one, two and four party unlimited business service, one party unlimited sending service only, one party receiving service only, one party measured business service, one party nickel service, one, two and four party residence service and extension telephones in effect in that part of Los Angeles which lies north of the center line of Manchester Avenue are shown in Table No. X.

TABLE NO. X.

RATES FOR SPECIFIED SERVICE EFFECTIVE IN THAT
PART OF THE CITY OF LOS ANGELES WHICH LIES
NORTH OF THE CENTER LINE OF MANCHESTER AVENUE.

	<u>BUSINESS</u>		<u>RESIDENCE</u>		
	<u>Wall</u>	<u>Desk</u>	<u>Wall</u>	<u>Desk</u>	
1 party unlimited	\$6.25	\$6.75	\$2.50	\$2.75	
2 " "	4.75	5.25	2.25	2.50	
4 " "			1.75	2.00	
4 " "	2.50	3.00	2.50	2.75	Subscribers to be located within city limits and between the center line of Manchester Ave. on the north and Ballona Ave. (Howard Townsite) on the south.
1 party unlimited	5.75	6.25			Sending service only.
1 " "	3.75	4.25			Receiving service only
1 " measured	5.50	6.00			100 Calls- 3¢ for each excess call.
1 " nickel service	5.50	6.00			5¢ for each local call until receipts equal guarantee of \$5.50 Excess calls over guarantee company retains 3¢ and subscriber 2¢.
Extension Telephones	-	\$1.00	-	\$1.00	

NOTE: A penalty of 25¢ will be added to bill if not paid before the end of the month.

Table No. X does not show private branch exchange switchboard rates and the rates for a number of other classes of service.

Under the provisions of Section 6 of Ordinance No. 32515 (New Series), the telephone rates which were in effect prior to the annexation by the City of Los Angeles of the territories known as San Fernando, Palms and Bairdstown, which rates were lower than those shown in Table No. X, are continued in effect. The rates in certain incorporated and unincorporated territory outside of the City of Los Angeles, which territory is included within the area herein under consideration, are also somewhat different from the rates shown in Table No. X.

The testimony shows that the long distance rates of the Pacific Company and of the United States Long Distance Telephone and Telegraph Company between Los Angeles and other points are practically identical.

The Southern Company offered to stipulate that if consent to the proposed consolidation is given by the Railroad Commission, the company will not make any request, during the next two years, for any increase in telephone rates in the area herein under consideration, and that it will continue all free switching arrangements now in effect between the area herein under consideration and other territory.

In order to ascertain whether the Southern Company would be able to operate successfully under the rates now in effect in Los Angeles, bearing in mind the loss in revenue to ensue from the elimination of duplicate stations, the Railroad Commission called upon petitioners to present an estimate of earnings and expenses during the year succeeding consolidation, which estimate will hereinafter be set forth in full. For the present it suffices to say that the estimate as thus filed, being Exhibit No. 15 of Petitioners, seemed to indicate

the amount of securities to be authorized herein, is correct, it would seem to indicate that it will not be necessary for the Southern Company to ask for an increase of rates in two years nor thereafter for at least a number of years. The order herein will contain a condition to the effect that the Southern Company, its successors and assigns, will not ask the Railroad Commission, except in possibly minor cases, necessary to remove discrimination, for an increase in rates in the area herein under consideration, for at least five years from the date of the decision herein. We are entirely satisfied from the showing made in Petitioners' Exhibit No. 16 that this condition is entirely reasonable and will work no injustice on the Southern Company.

(c) Revenues and Expenses.

The revenues and expenses of the Pacific Company and of the Home Company, during the years 1911 to 1915, inclusive, have been set forth in Tables Nos. III and VIII.

Table No. XI shows the combined revenues and expenses of the Pacific Company and the Home Company during the years 1911 to 1915, inclusive.

TABLE NO. XI

Home Telephone and Telegraph Company and The Pacific Telephone and Telegraph Company-- Combined Revenues and Expenses, 1911 to 1916, Inclusive.

	1915	1914	1913	1912	1911
Revenues	\$4,126,249.35	\$3,820,735.92	\$3,409,927.00	\$2,913,284.24	\$2,500,143.01
Expenses including Depreciation but Not Taxes	3,295,326.20	3,155,952.06	2,787,619.42	2,329,741.64	1,985,414.71
Net Operating Revenues	830,923.15	666,783.86	622,307.58	583,542.60	514,728.30
Non-Operating Income -Net	9,171.74	3,681.25	11,405.00	10,760.00	5,011.72
Gross Income	840,094.89	670,365.61	633,712.58	594,322.60	519,740.02
Deductions other than interest:					
Taxes	196,081.84	166,889.67	142,392.78	109,444.43	137,708.96
Rent	14,116.74	25,517.06	23,625.61	-	-
Uncollectible Bills	62,377.09	36,861.58	21,239.03	-	-
Total	272,575.67	229,268.31	187,257.42	109,444.43	137,708.96
Net available for bond interest, Sinking Fund, Amortization and Dividends	567,519.22	441,097.30	446,455.16	484,878.17	382,031.06

*Depreciation included in Operating Expenses.

Table No. XII, being Exhibit No. 15 of petitioners, shows the revised estimated earnings and expenses of the combined property during the year succeeding the proposed consolidation.

Table No. XII.

SOUTHERN CALIFORNIA TELEPHONE COMPANY-
ESTIMATED EARNINGS AND EXPENSES DURING YEAR SUCCEEDING
CONSOLIDATION.

Operating Revenues

Exchange service revenues	\$3,700,000.
" " "	150,000.
Miscellaneous operating revenues	80,000.
Licensee revenues Dr.	90,000.
Total	<u>\$3,840,000.</u>

Deductions:

Ordinary repairs	\$450,000	
Station removals and changes	200,000	
Current maintenance		650,000.
Traffic expenses		900,000.
Commercial expenses		410,000.
General and Miscellaneous expenses		130,000.
Total		<u>\$2,090,000.</u>

Other Deductions

Uncollectibles	40,000.
Taxes	225,000.
Rents	25,000.
Total Deductions	<u>\$2,380,000.</u>

<u>Balance</u>	\$1,460,000.
Bond interest (Approximately)	496,350.
Available for depreciation (Approximately)	963,650.

Table No. XIII, being Exhibit No. 16 of Petitioners, shows the revised estimated earnings and expenses of Southern California Telephone Company during the second year succeeding consolidation.

Table No. XIII.

SOUTHERN CALIFORNIA TELEPHONE COMPANY - ESTIMATED
EARNINGS AND EXPENSES - SECOND YEAR SUCCEEDING
CONSOLIDATION.

Average Number of Stations - 122,300

Operating Revenues:

Exchange Service Revenues	\$4,036,000.
Toll Service Revenues	165,000.
Miscellaneous Operating Revenues	85,000.
Licensee Revenues, Dr.	<u>98,000.</u>
Total	\$4,188,000.

Deductions:

Ordinary Repairs	\$505,000.	
Station Removals and Ex- changes	170,000.	
Current Maintenance		675,000.
Traffic Expense		950,000.
Commercial Expense		350,000.
General and Miscellaneous Expense		<u>135,000.</u>
Total		\$2,110,000.

Other Deductions:

Uncollectible	40,000.
Taxes	250,000.
Rents	<u>25,000.</u>
Total deductions	\$2,425,000.
Depreciation	\$1,012,000.
Bond Interest	500,000.
Balance	251,000.

We have already drawn attention to the fact that although the estimate of earnings and expenses during the year succeeding consolidation shows an inadequate balance available for depreciation reserve, as claimed by petitioners, with nothing available for dividends on stock, the estimate for the second year succeeding consolidation shows a full allowance for depreciation as estimated by petitioners, of \$500,000 for bond interest and \$251,000 for dividends on stock.

(d) Securities.

Table No. XIV shows the structural value of the property of the Pacific Company and the Home Company ^{originally} as/esti-
mated by the Pacific Company's engineers and also the securi-
ties which the Southern Company desires to issue for these
properties, as of December 31, 1915.

Table No. XIV.

HOME TELEPHONE AND TELEGRAPH COMPANY AND THE
PACIFIC TELEPHONE AND TELEGRAPH COMPANY-
STRUCTURAL VALUE OF PROPERTY AND SECURI-
TIES TO BE ISSUED IN EXCHANGE BY SOUTHERN
CALIFORNIA TELEPHONE COMPANY

<u>Company</u>	<u>Structural Value of Property</u>	<u>Par Value 5% bonds @ 91½%</u>	<u>Stock</u>
Home Company	\$7,711,000.00	\$8,427,000.00	
Pacific Company	<u>7,544,000.00</u>	<u>1,500,000.00</u>	<u>\$6,171,500.00</u>
	\$ 15,255,000.00	\$9,927,000.00	\$6,171,500.00

As contrasted with an estimated "structural value" of the property to be conveyed to the Southern Company, amounting to \$15,255,000.00, ^{originally} as/estimated by the Pacific Company's engineers, the Railroad Commission's engineers report a reproduction cost less depreciation as follows:

Home Company	\$7,120,866.89
Pacific Company	6,717,815.55
	<u>\$13,838,682.44</u>

Consideration must also be given to the fact that if a single telephone system were being constructed to do the work which is now being done by the systems of the Home Company and the Pacific Company, certain existing duplication of plant would be eliminated. Petitioners report in Exhibit No. 12 that the only property which will be discarded on consolidation will be 15,000 duplicate telephone stations, 429 private branch exchanges and 3,000 drops, having a total purchase price of \$323,900.00 and a net salvage value of \$169,540.00. However, the testimony and the statements of the representatives of both the Home Company and the Pacific Company clearly show that if a single telephone system were being constructed to do the work which the two existing systems are now doing, a considerable amount of present plant would be eliminated. Mr. Leo Keller, chief engineer of the Home Company, testified that there would be certain eliminations, but he was unable to state the amount thereof. Mr. I. F. Dix, telephone engineer of the Pacific Company, testified to the same effect. Mr. James T. Shaw, one of the attorneys of the Pacific Company, stated that, in his judgment, the amount of duplication would not exceed 10 per cent. Mr. T. R. Gray, one of the Railroad Commission's telephone engineers, who made a special study of this problem, testified that from the data available, he was of the opinion that the amount of duplication would exceed 10 per cent. Assuming a duplication of 10 per cent, the reproduction cost less depreciation of non-duplicated properties, on the basis used by the Railroad Commission's engineers, would be approximately \$6,408,779.00 for the Home Company's property and \$6,046,153.00 for the Pacific Company's property, or a total of \$12,454,932.00.

Attention was directed at the hearing to the fact that the bonds which the Southern Company is to issue to the Home Company in exchange for its property are to be guaranteed, as to principal and interest, by the Pacific Company, and it was suggested that such bonds should be worth more than 91 1/2 per cent. of their face value. It also appeared that the amount of bonds to be issued to the Home Company was determined on the strength of the inventory originally prepared by the Pacific Company, in which inventory the quantities are materially different from those finally agreed upon between the Railroad Commission's engineers and the engineers of the Home Company.

Attention was also directed to the fact that bonds of the Southern Company of the face value of \$4,113,000.00 are to be exchanged at par for the outstanding bonds of the Home Company and that on the basis of a structural value of \$7,711,000.00 for the property of the Home Company, the bonds presently to be issued by the Southern Company to the Home Company would actually be issued at 83.4 per cent. of their face value instead of 91 1/2 per cent, as indicated in the petition herein. On the basis of a cost to reproduce less accrued depreciation of \$7,120,866.89, reported by the Railroad Commission's engineers, the Home Company would receive \$4,314,000.00 face value of bonds of the Southern Company for an equity in the property amounting to only \$2,806,866.89. In other words, the Home Company would be receiving for the equity in its property over and above the outstanding bonds, bonds of the Southern Company at approximately 65 per cent. of their face value, a figure 30 points, more or less, below their real value. The discrepancy is even greater if consideration is given to duplicated property.

That the Home Company has driven a very advantageous bargain is entirely clear. If the Home Company's property alone were under consideration herein, we could not authorize the Southern Company to issue bonds even measurably approaching \$8,427,000.00 in exchange for the property. On the other hand, the bonds to be issued by the Southern Company to the Pacific Company under the plan herein presented being only \$1,500,000.00 are very moderate in amount.

The general public, however, is not so much interested in the amount of securities which will be issued to the Home Company and the Pacific Company, respectively, as in the total amount of securities issued by the Southern Company, on which it will hereafter expect to earn interest and dividends. If the total amount of securities to be issued by the Southern Company is not unfairly high, the general public is not so much interested in the division of these securities as between the Home Company and the Pacific Company, or in the question as to which of these companies has driven the better bargain.

The amount of securities to be issued by the Southern Company was based on the "structural value" of the properties as estimated by the engineers of petitioners herein, which value we find to be in excess of the present fair value of the properties. For this reason and the other reasons hereinbefore suggested a readjustment of the amount of securities which the Southern Company may be allowed to issue must be made.

After careful consideration of all the factors bearing on the question, including the earning power of the Southern Company at reasonable rates, we have concluded that the Southern Company may be authorized to issue, in exchange for the properties of the Home Company and the Pacific Company as of December 31st, 1915, capital stock and bonds not exceeding the face or

par value of \$14,000,000.00 (as compared with \$16,098,500.00 herein applied for) of which amount bonds of the Southern Company may be issued of a total face value not to exceed the sum of \$9,350,000.00 (as compared with \$9,927,000.00 herein applied for).

6. FRANCHISES.

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

(1) By the Home Company -- All its franchises, including specifically:

(a) Ordinance No. 6959 (New Series), City of Los Angeles to M. A. King, approved February 6, 1902, effective after publication, and assigned by M. A. King to Home Telephone and Telegraph Company. The term of this franchise is 50 years.

(b) Ordinance No. 129 (New Series), County of Los Angeles to Home Telephone and Telegraph Company, approved October 17, 1905, effective November 1, 1905, covering unincorporated territory within a radius of eight miles from the intersection of 9th and Main Streets, in the City of Los Angeles. The term of this franchise is 30 years.

(c) Ordinance No. 70, County of Los Angeles, to Arthur Wright, adopted April 7, 1903, effective May 1, 1903, covering the Cahuenga Valley Road District, and assigned by the grantee to Home Telephone and Telegraph Company. The term of this franchise is 50 years.

(d) Ordinance No. 582, City of South Pasadena to Home Telephone and Telegraph Company, approved May 26, 1913, and effective 30 days after passage. The term of this franchise is 40 years.

(2) By Pacific Company-- All its franchises, including specifically:

(a) Ordinance No. 90, City of Eagle Rock, to The Pacific Telephone and Telegraph Company, approved November 3,

1913. The term of this franchise is 25 years.

(b) Ordinance No. 108, City of Vernon to The Pacific Telephone and Telegraph Company, approved April 22, 1913. The term of this franchise is 50 years.

(c) Ordinance No. 141, City of Watts, approved October 1, 1912, effective the day after posting. The term of this franchise is 21 years.

On December 27, 1913, the Railroad Commission granted to the Pacific Company a certificate declaring that public convenience and necessity require the exercise by the Pacific Company its successors and assigns, of the rights and privileges granted by Ordinance No. 90 of the City of Eagle Rock (Vol. 3, Opinions and Orders of the Railroad Commission of California, p. 1172.)

The Railroad Commission is today making similar orders with reference to Ordinance No. 108 of the City of Vernon and Ordinance No. 141 of the City of Watts. These orders are being made in Application No. 2592, referring to the franchise granted by the City of Vernon and Application No. 2593, referring to the franchise granted by the City of Watts, both applications having been filed by the Pacific Company.

On June 20, 1913, a similar order was made on petition of the Home Company, applicable to franchise granted by the City of South Pasadena by Ordinance No. 382 (Vol. 2, Opinions and Orders of the Railroad Commission of California, p. 1049).

Ordinance No. 6959 (New Series), of the City of Los Angeles, being the ordinance under which the Home Company exercises its franchise in the City of Los Angeles, Ordinance No. 382 of the City of South Pasadena, being the ordinance under which the Home Company exercises its franchise in the City of South Pasadena, and Ordinance No. 141 of the City of Watts, being the Ordinance under which the Pacific Company exercises its franchise in the City of Watts, all provide substantially that the grantee of the franchise shall not assign the franchise or any right thereunder

or the plant installed thereunder unless the consent of the public authority granting the franchise has first been secured. Such consent has not as yet been secured by the petitioners herein, nor has application therefor been made to the respective municipalities. As it is proposed under the plan herein presented to transfer to the Southern Company the franchises granted by each of the three said ordinances, the necessary steps must of course be taken to secure the consent of the Cities of Los Angeles, South Pasadena and Watts, if this plan is to be consummated.

If the plan of consolidation herein presented is effected, the Southern Company will operate in Los Angeles under, and will be governed by, the franchise granted by the City of Los Angeles to M. A. King by Ordinance No. 6959, adopted on February 5th, 1902. This ordinance provides in part, as follows:

1. That the term of the franchise shall be 50 years;
2. That the grantee and his assigns may construct and operate a telephone system both in the "Conduit District" and elsewhere in the City of Los Angeles.
3. That the telephone system shall be constructed, maintained and altered as specified in the ordinance.
4. That the grantee and his assigns shall within the respective periods of time specified in the ordinance expend in the construction of its telephone system the respective sums of money therein designated.
5. That the grantee and his assigns shall, during the term of the franchise, supply and maintain at its own expense thirty free telephones for the City of Los Angeles.
6. That the grantee and his assigns shall furnish free to the City of Los Angeles up to 150 pairs of wires in its conduits and the use of the top cross arm in each telephone pole, for the

operation of the city's fire alarm and police telegraph system;

7. That the charges for telephone service shall not exceed the charges specified in the ordinance;

8. That the grantee and his assigns shall not transfer or assign the rights granted by the ordinance or the property installed thereunder unless the consent of the City of Los Angeles, evidenced by ordinance, has first been secured.

9. That the grantee and his assigns shall annually pay to the City of Los Angeles two per cent of the gross annual receipts arising from operation under the franchise.

10. That any failure to comply with the provisions of the ordinance shall "immediately ipso facto effect a forfeiture" of the rights granted.

Provision should be made in the deed of conveyance from the Sunset Company to the Pacific Company to transfer all franchises and other privileges owned by the Sunset Company and used in connection with local exchange business in the area affected. Otherwise the Southern California Telephone Company would not become the owner of the rights and privileges under which the Pacific Company has been doing local exchange business in its Los Angeles and Eagle Rock exchanges outside the Cities of Los Angeles, Eagle Rock, Vernon and Watts.

Petitioners represent that it will be necessary, under an arrangement between the Attorney General of the United States and the American Telephone and Telegraph Company to secure the consent of the Department of Justice before the plan of consolidation herein presented can be effected.

As is usual in proceedings of this character, the order herein will provide that it shall not become effective until the Railroad Commission has issued a supplemental order reciting that the Pacific Company and the Southern Company shall

have filed with the Railroad Commission stipulations, duly authorized by their respective boards of directors, agreeing, for themselves, their successors and assigns, that they will never claim for the franchise rights to be conveyed in the one case by the Sunset Company to the Pacific Company and in the other case by the Pacific and Home Companies to the Southern 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 stipulations.

7. INTERCHANGE versus CONSOLIDATION.

Some suggestions were made herein by the official representatives of the City of Los Angeles that it might be more desirable to have interchange between the systems of the Home Company and the Pacific Company, these systems to retain each its separate identity and separate property rights, than to have a consolidation of their properties into a single, unified system owned and operated by a single company.

We have given careful consideration to this suggestion and have endeavored to the best of our ability to ascertain fully the facts with reference to the desirability of such interchange as distinguished from the plan of consolidation herein proposed. In making this investigation, we have had in mind the best interests, not merely of the utilities herein involved, but constantly and earnestly ~~and~~ the best interests of the people of the City of Los Angeles.

The testimony not merely of the engineers of the Home Company and of the Pacific Company, but also of Mr. W. G. Middleton, one of the Railroad Commission's telephone engineers, who has had considerable experience in the construction and operation

both of manual and automatic systems, and who had immediate charge, under Chief Engineer Richard Sachse, of the preparation on behalf of the Railroad Commission, of the inventories and appraisals, of the telephone properties herein, shows to our mind, beyond any reasonable doubt, that the interests of all parties, including particularly the people of the City of Los Angeles, will be best served by a consolidation of the telephone properties and not by a mere interchange between separately owned and operated systems of the Home Company and the Pacific Company.

With reference to investment in the property, on which rates must be based, the testimony shows that the investment would be considerably larger under a plan of interchange than under the proposed consolidation. This result would follow both from the fact that additional expenditures would have to be incurred for the construction of trunk lines from the various branch exchanges to central points, and also from the fact that if the two existing telephone properties are not permitted to consolidate, the economies resulting from the use of the property of one company by the other and from the complete utilization of all existing property in all sections of the area here involved would be lost. Such testimony as the record contains on this point would seem to indicate that it would cost between \$400,000.00 and \$900,000.00 more in the first instance, to bring about interchange than consolidation, and that under a condition of interchange, it would be impossible to eliminate existing duplications of property and to utilize the existing investments of the two companies to their full capacity.

A larger investment under a condition of interchange would necessarily require a larger depreciation annuity to be set aside, year by year, to replace the investment as it wears out or becomes obsolescent or inadequate.

With reference to maintenance and operating expenses, the testimony shows that they would be materially larger under a condition of interconnection than under a condition of consolidation. It is, of course, obvious to everyone that the general expenses of two separate telephone organizations will be greater than the general expenses of a single consolidated system. Furthermore, it is urged by the telephone companies that by reason of the conflicting property interests of the two telephone companies, it would be necessary in some way to keep a record of the calls transmitted over the connected lines of the two companies. The engineers all agree if such recordation of the calls were made the result would be either material delays in the service due to the necessity of recordation by the connecting operator or the employment of additional operators at increased expense. Attention was further directed to the fact that it would be more difficult for the public to secure satisfactory service from two telephone companies, mutually antagonistic and each more or less inclined to evade responsibility and to attribute poor service to the other company, than would be the case if the service were rendered by a single responsible public agency.

The testimony of Mr. J. C. Nowell, general manager of the Pacific Company, would seem to indicate that a system of interchange would result in annual operating and maintenance expenses alone approximately \$200,000.00 in excess of the operating expenses and maintenance/under consolidation.

Even if some system of recording the various calls, analagous to the annual weighing of the United States mail, could be devised, and if we could imagine that the two telephone companies, continuing rivals by compulsion of public authority, would co-operate fully, freely and in perfect harmony to secure as great economy in the actual labor of interchanging calls under a system of interchange as would be the case under consolidation,

it would still be true that the investment, the depreciation annuity and at least the general maintenance and operating expenses would inevitably be greater under a system of interchange than under a system of consolidation, with resulting higher rates to be paid by the people of Los Angeles and adjacent territory involved in the proposed consolidation.

That interchange would necessarily be more expensive than consolidation and hence would call for higher rates to be paid by the people of Los Angeles and the other people living in the area here affected was frankly admitted by Mr. F. D. Howell, chief engineer for the Board of Public Utilities of Los Angeles.

On the other hand, the facts clearly show that under a condition of consolidation, by reason of a smaller return to be paid on capital invested, a smaller depreciation annuity to be set aside, year by year, and a smaller amount necessary to meet maintenance and operating expenses; the Southern Company will be able to give to the people of Los Angeles and vicinity a unified telephone service at rates lower than those which would be necessary under a condition of interchange, and that under a condition of consolidation the Southern Company will be able to give to the people of Los Angeles good telephone service without increasing the present rates.

We are satisfied that a system of interchange between the two existing telephone companies would not merely result in an increase in rates to be paid by the people of the City of Los Angeles, but would also give to them a less responsible and less satisfactory service than will be the case under consolidation. For this reason, we cannot see our way clear to make any recommendation which would look to the establishment of a system of interchange as opposed to the plan of consolidation herein presented.

8. ELIMINATION OF COMPETITION.

It has been suggested herein that it would not be desirable to authorize the elimination of alleged competition between the Home Company and the Pacific Company by granting the petition for a consolidation of their two telephone properties. It is urged that prior to the advent of the Home Company, the service of the Sunset Company was not what it should have been, and it is suggested that if competition is now eliminated, poor service and inattention to the wants of the public will again result.

In reply to this suggestion, attention is drawn to the fact that conditions in California affecting the regulation and supervision of public utilities are entirely different from the conditions which obtained when the Home Company entered the telephone field in Los Angeles as a competitor. At that time, there was no strong State authority charged with the duty of regulating and supervising telephone companies. The telephone companies found it relatively easy to conduct their business in their own way without any particular regard for the rights of the public. At the present time, however, the State itself has provided the machinery for strong and effective regulation of all classes of public utilities, including telephone companies, in the interest not merely of the public but of these companies themselves.

Referring to this same subject, we said, in the Santa Barbara Telephone Consolidation Case, Application No. 2265, decided on October 2, 1916, as follows:

"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, be exercised vigorously in the interests 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."

In the present instance, the evidence shows that if the consolidation is effected, the people of Los Angeles and vicinity will immediately save the sum of \$483,000.00 per year from the elimination of duplicate telephone stations. They will be relieved from the nuisance of a dual telephone system. Their rates will not exceed those which they have heretofore enjoyed under a condition of competition. The consolidated telephone company, receiving the entire gross revenue from telephone service within the area affected without corresponding increase in maintenance and operating expenses, will be a stronger company financially than either of the existing companies in so far as their operations within this area are concerned, and ought to be better able to borrow new moneys on favorable terms, to accord reasonable rates to its customers, and to make such extensions of service as the interests of the public may require.

In view of these immediate, substantial benefits to accrue to the public from the consolidation, we do not feel warranted in denying these benefits to the public merely because hereafter the consolidated company may possibly become remiss in its duty to the public. We prefer to believe that under the present supervision and regulation of telephone companies by the

State, the State will be strong enough to secure good service, even from a telephone monopoly, in case such monopoly should, blind to its own interest, revert to the conditions of the past.

After careful consideration, we are of the opinion that the petition herein should be granted, subject to the conditions contained in the order.

We submit the following form of order:

O R D E R

SOUTHERN CALIFORNIA TELEPHONE COMPANY, HOME TELEPHONE AND TELEGRAPH COMPANY, and THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY having filed their petition, and SUNSET TELEPHONE AND TELEGRAPH COMPANY having filed its supplemental and intervening petition, as appears in the opinion which precedes this order, and public hearings 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 hereinafter appear:

1. Home Telephone and Telegraph Company is hereby authorized to sell and convey to Southern California Telephone Company all the lands, property and rights of Home Telephone and Telegraph Company, except its corporate franchises, corporate records, cash, bills receivable and securities on hand, as said lands, property and rights are described in Exhibit No. 1, which is attached to and made a part of this order.
2. Sunset Telephone and Telegraph Company is hereby authorized to sell and convey to The Pacific Telephone and Telegraph Company for the sum of ten dollars (\$10.00) in cash, the lands, property and rights which are specifically described in Exhibit No. 2, which is attached to and made a part of this order.
3. The Pacific Telephone and Telegraph Company is hereby authorized to sell and convey to Southern California Telephone Company the lands, property and rights which are described in Exhibit No. 2, which is attached to and made a part of this

order, and also the franchise rights heretofore granted to The Pacific Telephone and Telegraph Company by the Cities of Eagle Rock, Vernon and Watts, as described in Exhibit No. 3, which is attached to and made a part of this order.

4. Southern California 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 No. 23 of Petitioners herein, to secure an issue of 5 per cent 30-year gold bonds of Southern California Telephone Company of the face value of \$1000.00 each, said bonds to be of the aggregate face value of \$12,000,000.00, and additional bonds not exceeding in the aggregate 75 per cent of the further actual and reasonable expenditures made by Southern California Telephone Company for permanent extensions, enlargements and additions to its plants, properties and equipment.

5. Southern California Telephone Company is hereby authorized to issue to Home Telephone and Telegraph Company and to The Pacific Telephone and Telegraph Company in payment for the properties to be conveyed by them respectively, its capital stock and 5 per cent 30-year gold bonds to be secured by said deed of trust or mortgage to Los Angeles Trust and Savings Bank, said capital stock and bonds to have a face or par value in the aggregate not to exceed the sum of \$14,000,000.00, and the bonds to be thus issued to have an aggregate face value not to exceed the sum of \$9,330,000.00.

6. Southern California Telephone Company is hereby authorized to issue to Home Telephone and Telegraph Company and to The Pacific Telephone and Telegraph Company in payment for the additions and betterments to the property of said Companies made between December 31, 1915 and the date of the conveyance by said two Companies of their respective properties, and the accounts receivable of said two Companies on said date of conveyance, such an amount of capital stock and bonds as may hereafter

be authorized by the Railroad Commission, after complete presentation of the facts, by a supplemental order herein.

7. The Pacific Telephone and Telegraph Company is hereby authorized to execute an agreement of guaranty to guarantee the payment of principal and interest of the bonds of Southern California Telephone Company to be issued in payment for the properties of Home Telephone and Telegraph Company and to refund outstanding bonds of Home Telephone and Telegraph Company, in substantially the form of the agreement of guaranty filed herein as Exhibit No. 24 of Petitioners.

8. Southern California Telephone Company is hereby authorized to sell for cash, at par, to The Pacific Telephone and Telegraph Company capital stock of Southern California Telephone Company of the par value of \$150,000.00 and The Pacific Telephone and Telegraph Company is hereby authorized to purchase and hold said capital stock. Said sum of \$150,000.00 in cash shall be used by Southern California Telephone Company as working capital.

9. Southern California Telephone Company is hereby authorized to issue one share of its capital stock to each of seven directors, at par, the proceeds to be devoted to such purpose as may hereafter be specified by supplemental order herein.

10. Home Telephone and Telegraph Company and The Pacific Telephone and Telegraph Company are hereby authorized to cease rendering local exchange/telephone service in the area described in the opinion which precedes this order and Southern California Telephone Company is hereby authorized to render local exchange telephone service in said territory.

11. The authority herein granted is granted upon the following conditions and not otherwise, to-wit:

(1) Before the authority herein granted shall become effective, Southern California Telephone Company shall file with the Railroad Commission a stipulation, duly authorized by its board of directors, agreeing for itself, its successors and assigns, to the matters hereinafter specified and shall have secured from the Railroad Commission a supplemental order stating that such stipulation, in form satisfactory to the Railroad Commission, has been filed herein. In said stipulation, Southern California Telephone Company shall agree and undertake for itself, its successors and assigns, as follows:

(a) That during the period of five years subsequent to the date of this order, Southern California Telephone Company will not make application to the Railroad Commission or any other public authority for any increase in the telephone rates now in effect in the territory in which the company is to operate, except in such minor matters as may be necessary to remove discriminations.

(b) That, except in exceptional cases to be passed upon until further notice in each instance by the Railroad Commission, Southern California Telephone Company will install for each subscriber, present and future, the type of telephone station, whether automatic or manual, desired by the subscriber, and in its solicitation for business and in all other respects will not with absolute impartiality as between the automatic and the manual telephone stations.

(c) That when a subscriber desires long distance service, Southern California Telephone Company will first inquire whether the subscriber desires to use the toll lines of The Pacific Telephone and Telegraph Company or of United States Long Distance Telephone and Telegraph Company, and will in each instance accord

to the subscriber the long distance service which he desires.

(d) That Southern California Telephone Company will give to all its subscribers, whether automatic, semi-automatic or manual, access without discrimination, to the long distance telephone lines of The Pacific Telephone and Telegraph Company or of United States Long Distance Telephone and Telegraph Company or of both of said companies.

(e) That Southern California Telephone Company will not change its principal office from the City of Los Angeles.

(f) That Southern California Telephone Company will never claim in any proceeding before the Railroad Commission, any court, or other public authority, any value for the franchises which are to be conveyed to it by The Pacific Telephone and Telegraph Company and Home Telephone and Telegraph Company 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.

(2) Before the authority herein granted shall become effective, The Pacific Telephone and Telegraph Company shall have filed 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 other public authority, any value for the franchises which are to be conveyed to it by Sunset Telephone and Telegraph Company in excess of such moneys as may have been paid by Sunset Telephone and Telegraph Company for said franchises, which moneys shall be stated in said stipulation, and shall have secured from the Railroad Commission a supplemental order reciting that such stipulation, in form satisfactory to the Railroad Commission, has been filed herein.

(3.) Before the authority herein granted shall become effective, the Southern California Telephone Company shall have secured and filed herein a stipulation of The Pacific Telephone and Telegraph Company and United States Long Distance Telephone and Telegraph Company, duly authorized by their respective boards of directors, agreeing for themselves, their successors and assigns, that they will accept, transmit and deliver, without discrimination, as between manual, semi-automatic or automatic subscribers, or otherwise, all long distance telephone messages between the exchange of Southern California Telephone Company and all other points in the State of California to which their respective long distance or toll lines now extend or may hereafter extend.

(4.) Until further order, Southern California Telephone Company shall file with the Railroad Commission monthly reports of station removals and station changes, showing the class of service removed and the nature of the change from one class of service to another, and distinguishing between manual ^{and} automatic ~~and~~ service.

(5) Until further order, Southern California Telephone Company shall keep detailed daily trouble records, showing the number, class, cause and remedy of such complaints, which reports shall be kept separately as to automatic ~~and manual~~ and manual service and shall be open at all times to inspection by representatives of the Railroad Commission.

(6) Until further order, Southern California Telephone Company shall file with the Railroad Commission monthly reports showing the progress of consolidation and, by accounts, the

items and amounts of money expended for that purpose.

The Railroad Commission reserves the right to make such further order or orders herein as, from time to time, may seem just and reasonable.

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 4th day of November, 1916.

Max Thelen

A. B. ...

W. Gordon

Edwin O. Edgerton

Franz R. Doherty

Commissioners.

EXHIBIT NO.1.

All those certain parcels of land situate, lying and being in the County of Los Angeles, State of California, and described as follows, to wit:

First. Lot "A" of Tract Number 2252, as per map recorded in Book 22, page 53, of Maps, in the office of the County Recorder of Los Angeles County.

Second. Lot Five (5) of the Priester Tract, as per map recorded in Book 15, page 19, of Maps, in the office of the County Recorder of Los Angeles County.

Third. Lot Thirty-two (32) of the West Lake Park Tract, as per map recorded in Book 12, page 15, Miscellaneous Records of Los Angeles County.

Fourth. Lot Nine (9) of the South Park Avenue Home Tract, as per map recorded, in Book 5, page 86, of Maps, in the office of the County Recorder of Los Angeles County.

Fifth. Lots Four (4) and Five (5) in Block One (1) of the Chas. Victor Hall Tract, as per map recorded in Book 26, page 65, Miscellaneous Records of Los Angeles County.

Sixth. Lot Four (4) of Tract Number 1359, as per map recorded in Book 18, page 68, of Maps, in the office of the County Recorder of Los Angeles County.

Seventh. The East fifty (50) feet of Lot Ninety-one (91) of Norwood Terrace Extension, as per map recorded in Book 11, page 173, of Maps, in the office of the County Recorder of Los Angeles County.

Eighth. Lot Seven (7) in Block One (1) of Vermont Avenue Square, as per map recorded in Book 8, page 81, of Maps, in the office of the County Recorder of Los Angeles County.

Ninth. The Southerly thirty-five (35) feet, front and rear, of Lot Seven (7) in Block Five (5) of Ord's Survey, as per Map recorded in Book 53, page 66 et seq., Miscellaneous Records of Los Angeles County, except the Northerly ten and one-half ($10\frac{1}{2}$) inches thereof, conveyed to the J. W. Robinson Co., by deed recorded in Book 2831, page 173, of Deeds, Records of Los Angeles County.

Tenth. The Northerly fifty (50) feet in width, front and rear, of Lot Fifty-two (52) of Spence's Addition to Boyle Heights, as per map recorded in Book 5, page 503, Miscellaneous Records of Los Angeles County.

Eleventh. Part of Lot Seven (7) of Ganahl and Spitley's Subdivision of part of the Washington Garden Tract, as per map recorded in Book 28, page 82, Miscellaneous Records of Los Angeles County, described as follows, to-wit:

Beginning at a point on the easterly line of Grand Avenue three hundred eight (308) feet southerly from the southerly line of Washington Street, said point being the northwesterly corner of said Lot Seven (7); thence southerly along the easterly line of Grand Avenue fifty (50) feet to a point being the southwesterly corner of said Lot Seven (7) of said Subdivision; thence easterly along the southerly line of said Lot Seven (7), one hundred seventy-six and ten hundredths (176.10) feet; thence northerly fifty (50) feet to a point in the northerly line of said Lot Seven (7), which point is one hundred seventy-six and eighty-three hundredths (176.83) feet easterly along said northerly line from point of beginning; thence westerly along said northerly line one hundred seventy-six and eighty-three hundredths (176.83) feet to the point of beginning.

Twelfth. Lots Fifteen (15), Sixteen (16), Seventeen (17), Eighteen (18), Nineteen (19) and Twenty (20) in Block "C" of the Subdivision of certain lots in Highland Park Tract, as per map recorded in Book 6, page 392 et seq., Miscellaneous Records of Los Angeles County; subject, however, to certain rights of way contained in deed recorded in Book 92, page 52, of Deeds, and in Book 460, page 210, of Deeds, Records of Los Angeles County.

Thirteenth. Those portions of Lots Two (2) and Three (3) in Block Four (4) of Hollywood Ocean View Tract, as per map recorded in Book 1, page 62, of Maps, in the office of the County Recorder of Los Angeles County, described as follows:

1. Beginning at a point in the west line of said Lot Three (3), distant thereon sixty-four (64) feet southerly from the southwest corner of Lot Five (5) in said Block Four (4); thence easterly parallel with the south line of said Lots Two (2) and Three (3), seventy-one (71) feet; thence southerly parallel with the westerly line of said Lot Three (3), twenty-six (26) feet; thence westerly parallel with the south line of said Lots Two (2) and Three (3), seventy-one (71) feet to a point in the west line of said Lot Three (3); thence northerly twenty-six (26) feet to the point of beginning.

Excepting therefrom an undivided one-half interest in the wall located on the north side thereof, and the ground covered by said wall.

Subject to party wall agreement between F.F. Graves and the Bank of Hollywood, affecting the north line of said property, filed for record April 14th, 1904, and subject to conditions in deeds recorded in Book 1764, page 99, of Deeds, Los Angeles County Records.

2. An undivided one-half ($\frac{1}{2}$) interest in a strip of land twelve (12) feet in width, adjoining the above described parcel and of the same depth, said twelve (12) foot strip being described as follows:

Beginning in the west line of said Lot Three (3) at the southwest corner of said parcel numbered "1"; thence east along the south line of said ^{first} described parcel seventy-one (71) feet to the southeast corner thereof; thence southerly parallel with the west line of said Lot Three (3) twelve (12) feet; thence westerly parallel with the first named course, seventy-one (71) feet to the west line of said Lot Three (3); thence northerly twelve (12) feet to the place of beginning.

Also the right of ingress and egress (or for alley purposes) to be used in common by the Bank of Hollywood, a corporation, and F.F. Graves, or parties to whom they may grant such rights, over a strip of land sixteen (16) feet in width adjoining the premises above described on the east and extending northerly to the south line of an alley deeded to the County of Los Angeles by deed recorded in Book 1631, page 83, of Deeds, Records of Los Angeles County, more particularly described as follows:

Beginning at the southeast corner of the twelve (12) foot strip described in the last mentioned parcel 2 herein, and running thence northerly parallel with the west line of said Lot Three (3) to the south line of the alley way so deeded to the County of Los Angeles; thence easterly along the south line of said alley way sixteen (16) feet; thence southerly parallel with the first course eighty-eight (88) feet; and thence westerly sixteen (16) feet to the point of beginning, as granted by deeds from the Bank

of Hollywood to F.F. Graves and from F.F. Graves to the Home Telephone and Telegraph Company, filed for record April 14th, 1904; subject to conditions contained in deed from Bank of Hollywood, to F.F. Graves, filed for record April 14, 1904; subject also to conditions contained in deed recorded in Book 1764, page 99, of Deeds, Los Angeles County Records.

Fourteenth. Lot Three (3) of the Normandie Avenue Tract, as per map recorded in Book 3, page 97, of Maps, in the office of the County Recorder of Los Angeles County, subject to restrictions and stipulations contained in a deed bearing date of the 15th day of November, 1905, executed by the Title Guarantee and Trust Company, Trustee, to J. H. Freeman, recorded in Book 2514, page 1, of Deeds, Los Angeles County Records, on the 22nd day of November, 1905.

Fifteenth. The west fifty (50) feet and the south fourteen-(14) feet of the east five (5) feet of Lot Two (2) in Block Eleven (11), East Los Angeles, as per map recorded in Book 3, pages 194 and 195, Miscellaneous Records of Los Angeles County; subject, however, to the agreements, conditions and stipulations contained in the deed from Grove S. DeLine and Catherine A. DeLine, his wife, to Frank W. Wachter, dated May 7th, 1904, and filed for record May 17th, 1904; also

The south fourteen (14) feet of Lot One (1) Block Eleven (11), East Los Angeles, as per map recorded in Book 3, pages 194 and 195, Miscellaneous Records of Los Angeles County.

Also that certain parcel of land situate, lying and being in the City of South Pasadena, County of Los Angeles, State of California, and described as follows, to-wit:

Sixteenth. Lot Thirty (30) in Block "A" of Smith and Jacob's Second Subdivision, being a subdivision of the north half

and southeast quarter of Lot Two (2), Block "A" of Marengo Tract, as per map recorded in Book 17, page 26, Miscellaneous Records of Los Angeles County.

Also that certain parcel of land situate, lying and being in the City of Beverly Hills, County of Los Angeles, State of California, and described as follows, to wit:

Seventeenth. Part of Lot "A" shown on map of a portion of the Rancho Rodeo de las Aguas, recorded in Book 107, page 210 et seq., Miscellaneous Records of Los Angeles County, described as follows:

Beginning at a point which bears north fifty (50) degrees twenty-eight (28) minutes thirty (30) seconds east twenty-five (25) feet from a point in the southerly prolongation of the center line of Gwendolyn Drive, as shown on the map of Beverly Hills, as per map recorded in Book 22, pages 22 and 23, of Maps, said last mentioned point being distant south thirty-nine (39) degrees thirty-one (31) minutes thirty (30) seconds east one hundred thirty (130) feet from the southerly line of Santa Monica Boulevard, as shown on said map of Beverly Hills; thence north fifty (50) degrees twenty-eight (28) minutes thirty (30) seconds east one hundred fifty (150) feet; thence south thirty-nine (39) degrees thirty-one (31) minutes thirty (30) seconds east fifty (50) feet; thence south fifty (50) degrees twenty-eight (28) minutes thirty (30) seconds west one hundred fifty (150) feet; thence north thirty-nine (39) degrees thirty-one (31) minutes thirty (30) seconds west fifty (50) feet to the point of beginning.

Also the fifty-year franchise to construct, maintain and operate a telephone system in the City of Los Angeles, State of California, granted to M. A. King by the Mayor and Council of the

City of Los Angeles by Ordinance Number 6959 (New Series) approved February 6, 1902.

Also the thirty-year franchise to construct, maintain and operate a telephone and telegraph system in that part of the County of Los Angeles, State of California, lying outside of and immediately adjacent to the City of Los Angeles and within a radius of eight miles from the intersection of Ninth and Main Streets in said City, granted to the Home Telephone and Telegraph Company, a corporation, by the Board of Supervisors of the County of Los Angeles by Ordinance Number 129 (New Series) adopted October 17, 1905.

Also the fifty-year franchise to construct, maintain and operate a telephone and telegraph system within the Cahuenga Valley Road District in the County of Los Angeles, State of California, granted to Arthur Wright by the Board of Supervisors of the County of Los Angeles by Ordinance Number 70, adopted April 7, 1903.

Also the forty-year franchise to construct, maintain and operate a telephone and telegraph system in the City of South Pasadena, State of California, granted to the Home Telephone and Telegraph Company, a corporation, by the Board of Trustees of the City of South Pasadena, by Ordinance Number 382, adopted May 26, 1913.

Also all lands, buildings, telephone lines, exchanges, poles, cross-arms, insulators, wires, aerial cables, underground conduits, underground cables, switchboards, electrical appliances

and apparatus, tools, implements, materials and supplies, and all ordinances, privileges, rights, franchises (except its corporate franchise), leases, easements and licenses now owned by Home Telephone and Telegraph Company.

Also all other property, real and personal, of every kind and nature, and wherever situated, which Home Telephone and Telegraph Company now owns or holds, except its corporate franchise, corporate records, cash, bills receivable and securities on hand.

Together with all and singular the tenements, hereditaments and appurtenances thereunto belonging or in any wise appertaining, and the reversion and reversions, remainder and remainders, rents, and profits thereof, and all the right, title and interest of Home Telephone and Telegraph Company in or to same.

Subject, however, to the lien of all unpaid taxes, to the lien of a certain mortgage or deed of trust executed by Home Telephone and Telegraph Company to Title Insurance & Trust Company, as Trustee, to secure an issue of bonds of Home Telephone and Telegraph Company, dated December 31, 1902, maturing January 1, 1933, the aggregate amount of which at this time outstanding is \$2,034,000, and to the lien of a certain mortgage or deed of trust executed by Home Telephone and Telegraph Company to Title Insurance & Trust Company, as Trustee, to secure bonds of Home Telephone and Telegraph Company, dated July 1, 1905, maturing July 1, 1945, the aggregate amount of which at this time outstanding is \$2,079,000.

EXHIBIT NO. 2.

All those certain parcels of land situate, lying and being in the City of Los Angeles, County of Los Angeles, State of California, and described as follows, to-wit:

First. Lot Seventeen (17) of L. N. Breed's Subdivision of Lot One (1) of the Mathew and Fickett Tract, as per map recorded in Book 5, page 509, Miscellaneous Records of Los Angeles County.

Second. Lot Ninety (90) of the Workman and Hollenbeck Tract, as per map recorded in Book 5, pages 426 and 427, Miscellaneous Records of Los Angeles County.

Third. Lots Four (4) and Five (5) of the Eagle Tract, as per map recorded in Book 2, page 27, of Maps, in the office of the County Recorder of Los Angeles County.

Fourth. Lot Three (3) of William M. Hamlin's Resubdivision, being a replat of Lots One (1) to Twelve (12) inclusive, of Block 12, Highland Park Tract, as per map recorded in Book 2, page 37, of Maps, in the office of the County Recorder of Los Angeles County.

Fifth. That portion of Block One (1) of Colegrove, as per map recorded in Book 53, page 10, Miscellaneous Records of Los Angeles County, described as follows:

Beginning in the center of Gower Street, distant three hundred thirty (330) feet south of the center line of Sunset Boulevard, thence south one hundred fifty (150) feet, thence west one hundred ninety-eight (198) feet; thence north one hundred fifty (150) feet; thence east one hundred ninety-eight (198) feet to the point of beginning.

Sixth. Lots Twenty-one (21) and Twenty-two (22) of the Subdivision of Block 18, Ord's Survey, as per map recorded in Book

34, page 89, Miscellaneous Records of Los Angeles County.

Seventh. Lot One hundred Ninety-seven (197) of the Boettcher Tract, as per map recorded in Book 3, page 58, of Maps, in the office of the County Recorder of Los Angeles County.

Eighth. Lot Twenty-two (22) in Block "C" of the Cameron Tract, as per map recorded in Book 7, page 21, Miscellaneous Records of Los Angeles County.

Ninth. Lot Two Hundred Eighty-one (281) of Pioneer Investment and Trust Company's University Place, as per map recorded in Book 10, page 46, of Maps, in the office of the County Recorder of Los Angeles County.

Tenth. Lots Thirteen (13) and Fourteen (14) of Block Fifteen (15) of the Urmston Tract, as per map recorded in Book 11, page 10, Miscellaneous Records of Los Angeles County.

Also all of a certain strip of land about three (3) feet wide lying between said above described lots, and extending from Twenty-second Street to the alley adjoining said block on the north.

Eleventh. Lot Fifty-two (52) of the West End Terrace, as per map recorded in Book 22, page 33, of Miscellaneous Records of Los Angeles County.

Twelfth. Lot Twenty-five (25) in Block One (1) of the Chas. M. Hutchinson Tract, as per amended map recorded in Book 7, page 69, of Maps, in the office of the County Recorder of Los Angeles County.

Also, all lands, buildings, telephone lines, exchanges, poles, cross-arms, insulators, wires, aerial cables, underground conduits, underground cables, switchboards, electrical appliances and apparatus, tools, implements, materials and supplies, situated in the City of Los Angeles, City of Watts, City of Vernon, City of Eagle Rock, City of Huntington Park, and portions of the County of

Los Angeles adjoining said cities and constituting the Los Angeles Telephone Exchange of Sunset Telephone and Telegraph Company, except the property classified under the accounting system of Sunset Telephone and Telegraph Company as "Toll Lines"; and all ordinances, privileges, rights, franchises, leases, easements and licenses now owned by Sunset Telephone and Telegraph Company, under which the property hereby conveyed is now operated.

Together with all and singular the tenements, hereditaments and appurtenances thereunto belonging or in any wise appertaining, and the reversion and reversions, remainder and remainders, rents, and profits thereof, and all the right, title and interest of Sunset Telephone and Telegraph Company in or to the same.

Subject to the lien of all unpaid taxes upon the property hereby conveyed.

EXHIBIT NO. 3.

The twenty-five-year franchise to construct, maintain and operate a telephone and telegraph system in the City of Eagle Rock, State of California, granted to The Pacific Telephone and Telegraph Company, a corporation, by the Board of Trustees of the City of Eagle Rock by Ordinance Number 90, adopted November 3, 1913.

The fifty-year franchise to construct, maintain and operate a telephone and telegraph system in the City of Vernon, State of California, granted to The Pacific Telephone and Telegraph Company, a corporation, by the Board of Trustees of the City of Vernon, by Ordinance Number 108, adopted April 22, 1913.

The twenty-one-year franchise to construct, maintain and operate a telephone and telegraph system in the City of Watts, State of California, granted to The Pacific Telephone and Telegraph Company, a corporation, by the Board of Trustees of the City of Watts by Ordinance Number 141, adopted October 1, 1912.