

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

In the Matter of the Application  
of RIVERSIDE HOME TELEPHONE AND  
TELEGRAPH COMPANY and THE PACIFIC  
TELEPHONE AND TELEGRAPH COMPANY  
for an order authorizing Riverside  
Home Telephone and Telegraph Com-  
pany to sell and authorizing The  
Pacific Telephone and Telegraph Com-  
pany to purchase the real estate,  
plant, equipment, materials and  
supplies of Riverside Home Telephone  
and Telegraph Company.

Application No. 2174.

Pillsbury, Madison and Sutro, by E. D. Pillsbury,  
and James T. Shaw, for The Pacific Telephone  
and Telegraph Company.  
George B. Ellis for Home Telephone and Telegraph Company.  
A. H. Winder, City Attorney, and L. C. Kelley, Deputy  
City Attorney, for City of Riverside and Chamber  
of Commerce of Arlington.  
Saran and Thompson for L. B. Kilday.

TERLEN and GORDON, Commissioners.

O P I N I O N.

This is a proceeding for the consolidation of the  
properties of Riverside Home Telephone and Telegraph Company,  
hereinafter called the Home Company, and The Pacific Telephone  
and Telegraph Company, hereinafter called the Pacific Company,  
in and adjacent to the City of Riverside, California. The Home  
Company asks authority to convey to the Pacific Company and the  
Pacific Company asks authority to acquire the real estate, plant,  
equipment, materials and supplies of the Home Company. The  
Pacific Company asks authority to pay for said property the sum  
of \$245,382.65.

The petition herein, as amended, alleges, in effect,  
that the two petitioners are California corporations engaged in  
a general telephone and telegraph business in and adjacent to  
the City of Riverside; that the Home Company desires to sell and  
the Pacific Company desires to purchase the Home Company's property

consisting of real estate, plant, equipment, materials and supplies, the purchase price to be the sum of \$245,382.65; that the inhabitants of Riverside are at present subjected to the inconvenience and annoyance of two telephone systems; that on April 5, 1915, the City of Riverside granted to the Pacific Company for the term of 20 years, a franchise to operate a telephone and telegraph system and that this franchise was granted upon the assurance of the Pacific Company that it would use every endeavor to bring about a consolidation between the two telephone systems in the City of Riverside; that such consolidation will be of substantial benefit to the inhabitants of the City of Riverside; and that the original cost of the property to be conveyed cannot be ascertained and that the present value of the property is \$245,382.65. The parties ask authority respectively to sell and to purchase said property for said sum of \$245,382.65.

A public hearing in this proceeding was held in Riverside on October 31, 1916. At this hearing appearances were entered in behalf of the two petitioners herein, the City of Riverside, the Chamber of Commerce of Riverside, the Chamber of Commerce of Arlington, and the complainant in the case of L. B. Kilday against Riverside Home Telephone and Telegraph Company and the City of Riverside, a complaint for damages alleged to have been caused through the negligence of said two defendants.

This proceeding was submitted on October 31, 1916, and is now ready for decision.

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

1. Telephone competition in Riverside.
2. Balance sheet--Home Company.
3. Original cost to date--Home Company.
4. Valuation of Home Company.
5. Duplication of property.
6. Earnings and expenses--Home Company.
7. Earnings and expenses--Pacific Company.
8. Plan of consolidation.
  - (a) Service.
  - (b) Rates.
  - (c) Earnings and expenses.

- (d) Consideration.
- (e) Franchises.

1. TELEPHONE COMPETITION IN RIVERSIDE.

The first record of telephone development in the City of Riverside, contained in the evidence in this proceeding, is found in Ordinance No. 91 of the City of Riverside, passed on March 19, 1888, granting to The Sunset Telephone-Telegraph Company the right for a term of 25 years to erect and maintain telephone and telegraph poles upon and to run wires over and along the public streets and thoroughfares of the City of Riverside. A telephone system was installed and operated by Sunset Telephone-Telegraph Company under the terms of this ordinance.

On April 9, 1895, the Board of Trustees of the City of Riverside passed Ordinance No. 193, granting a telephone franchise for a term of 25 years to H. M. Streeter. This franchise was later assigned to the Home Company, which company was incorporated under the laws of California on July 21, 1904.

The Home Company's authorized capital stock consisted of 5000 shares of the par value of \$100.00 each, having a total par value of \$500,000.00. Of the stock thus authorized, capital stock of the par value of \$280,500.00 was issued. Two assessments were levied on the outstanding stock, one being an assessment of \$2.50 per share, levied in 1912, and the other an assessment of \$8.50 per share, levied in 1914. These assessments were paid on 23,825 shares and netted the company \$26,207.50. The stock forfeited by reason of failure to pay these assessments reduced the par value of the outstanding capital stock to \$238,250.00.

The Home Company authorized a bonded indebtedness of \$500,000.00, of 5 per cent first mortgage bonds, dated November 1, 1904, and maturing on November 1, 1934. At the present time, bonds of this issue of the face value of \$275,500.00 are outstanding.

The Home Company's plant in Riverside was constructed under contract with Empire Construction Company, which company also constructed most, if not all, the other so-called Home Companies in Southern California. On April 3, 1905, the Home Company issued to the Empire Construction Company in consideration for the property constructed by the latter, bonds of the face value of \$210,000.00 and capital stock of the par value of \$220,000.00. The Home Company assumed the management of the property on July 1, 1905.

The record herein does not show the number of telephone stations of the Pacific Company and of the Home Company in and adjacent to Riverside prior to January 31, 1910, at which time the Pacific Company had 2654 telephone stations and the Home Company 1497 telephone stations. The Home Company's stations increased to 1571 on June 30, 1911. For a number of months subsequent thereto, the Home Company held its stations at between 1570 and 1520. Beginning with the early portion of 1912, however, the number of Home stations gradually decreased until the middle of 1915, since which time the decrease has been very rapid. On January 31, 1916, the Home Company had 1033 stations remaining, on May 31, 1916, 932 and on the date of the hearing herein, "between 700 and 800." In the meantime, the number of stations of the Pacific Company gradually increased from 2654 on January 31, 1910, to 3129 on September 30, 1916. Accordingly, at the date of the hearing herein, the Pacific Company had approximately four times as many stations as the Home Company in and adjacent to the City of Riverside.

The cause for the gradual increase in the number of the Pacific Company's stations and the decrease in the number of the Home Company's stations appears clearly from the facts in connection with the competition of these two companies, which facts will now be set forth.

Early in 1913, as testified to by Mr. George B. Ellis, the Pacific Company acquired control of the bonds of the Home Company. At the same time, the Pacific Company undertook to acquire control of the stock of the Home Company. In 1913 and thereafter the Pacific Company bought all the stock of the Home Company. This transaction, however, did not become legally effective for the reason that the Pacific Company did not secure the consent of the Railroad Commission, as provided by Section 52 of the Public Utilities Act. It is unnecessary, at this time, to comment on this transaction of the Pacific Company further than to say that the authority herein desired by the Pacific Company and the Home Company to consolidate their properties will not be granted until the Pacific Company has made application to the Railroad Commission for authority to acquire the capital stock of the Home Company, as provided in Section 52 of the Public Utilities Act, and the Railroad Commission has made its decision on such application.

Mr. George B. Ellis, President of the Home Company, testified that he and his associates had sold practically all the capital stock of the Home Company to the Pacific Company or its representatives at the price of \$20.00 per share and most of the bonds at the price of \$55.00 per bond. Representatives of the Pacific Company claim that a total of \$95,542.25 was paid for all the stock. The capital stock was first placed in the name of H. M. Robinson, who was acting as the Pacific Company's agent, thereafter was transferred to Pacific States Telephone and Telegraph Company, whose stock was entirely owned by the Pacific Company, and thereafter to Bell Telephone Company of Nevada, whose stock is likewise entirely owned by the Pacific Company.

We thus have a situation in which the Pacific Company was engaged in apparent competition with itself, as owner of the Home Company. The fact of the ownership of the Home Company by the Pacific Company did not become public property until developed by the presiding Commissioners herein at the

hearing in Riverside on October 31, 1916.

Mr. Ellis testified that under instructions from Mr. E.M. Robinson, the agent of the Pacific Company, the Home Company ceased making efforts, subsequent to the acquisition of its capital stock by the Pacific Company, to acquire any additional business. Railroad Commission's Exhibit No. 1 herein shows that the additions and betterments to the Home Company's property from the year ending October 31, 1909, to the six months' period ending June 30, 1916, were ~~been~~ as shown in Table No. I.

Table No. I.

Additions and Betterments--Riverside Home Telephone  
and Telegraph Company--Year ending Oct. 31, 1909,  
to Six Months Ending June 30, 1916.

<u>Year Ending</u>	<u>Additions and Betterments</u>
October 31, 1909	\$8,772.20
" " 1910	6,223.81
" " 1911	5,109.22
" " 1912	3,581.47
" " 1913	3,094.15
December 31, 1914	965.67
" " 1915	938.08
6 Months ending June 30, 1916.	370.80

Table No. I shows that shortly after the acquisition of the control of the Home Company by the Pacific Company, the additions and betterments to the Home Company's property fell to almost nothing.

The testimony further shows that the service given by the Home Company has gradually become worse, until at the present time it is the subject of insistent complaint from the subscribers

who have retained Home phones. A number of prominent citizens of Riverside, who have retained automatic phones, testified that during the last year or two they have had considerable trouble with their phones by reason of being out of order and that the service generally has been increasingly poorer.

The failure to seek additional business and the failure to give good service have naturally resulted in the marked falling off in the Home Company's business, as hereinbefore indicated.

Nevertheless, a number of subscribers having automatic service testified that they desired very much to retain their automatic phones if the service were improved.

While the business of the Home Company was thus gradually being destroyed, the Pacific Company was making the necessary additions and betterments and giving good service, with the result that it was rapidly increasing the number of its subscribers, largely at the expense of the Home Company.

We thus have a situation of fictitious competition between the Pacific Company and itself, in which competition the Pacific Company, by reason of failure to make additions and betterments to the property of the Home Company and of failure to give good service over the lines of that company, was gradually ~~destroyed~~ destroying the value of the property of the Home Company, the control of which it had acquired. The Pacific Company cannot escape the responsibility for this condition. The Pacific Company owned the Home Company and is directly chargeable with the Home Company's derelictions subsequent to the early part of 1913.

On April 5, 1915, the City of Riverside, by Ordinance No. 201, New Series, granted to the Pacific Company a telephone and telegraph franchise until March 1, 1935. As alleged in the petition

herein, this franchise was granted to the Pacific Company upon the assurance of the Pacific Company that it would use every endeavor to bring about a consolidation between its system and the system of the Home Company in the City of Riverside. At the time this franchise was granted, the Pacific Company owned and it now owns the entire capital stock of the Home Company and the entire issue of outstanding bonds of the Home Company, with the exception of one bond of the face value of \$500.00, which bond cannot be found.

In the meantime, the people of Riverside were becoming tired of the expense and annoyance of a duplicate telephone system and were insisting upon a consolidation of the dual systems. From the testimony herein, it would appear that there is a unanimous sentiment in Riverside in favor of such consolidation.

## 2. BALANCE SHEET.

Table No. II shows the Balance Sheet of the Home Company as of June 30, 1916, as reported by the Railroad Commission's Auditing Department in Railroad Commission's Exhibit No.1.



TABLE NO. II.

Balance Sheet - Riverside Home Telephone and  
Telegraph Company - June 30, 1916.

ASSETS

Fixed Capital Installed Prior to Jan. 1, 1914		\$293,819.79
" " " Since Dec. 31, 1913		2,274.55
Office Cash Fund		100.00
1st National Bank Riverside		2,366.81
National Bank of California, Deposit		18,951.93
Riverside Company Franchise		157.75
Prepaid Insurance		142.30
Subscribers' Account		65.45
Store Account		8,181.73
State Comp. Insurance		50.00
Prepaid Taxes		38.55
Unamortized Capital Stock	238,250.00	
Less Assessment	<u>26,207.50</u>	212,042.50
Deficit		<u>34,157.73</u>
Total		<u>\$572,349.09</u>

LIABILITIES

Outstanding Bonds	\$275,500.00
" Stock	238,250.00
Unpaid Bond Interest Accrued	57,408.34
Customers Deposits	784.52
U.S. Long Distance	<u>406.23</u>
Total	<u>\$572,349.09</u>

### 3. ORIGINAL COST TO DATE--HOME COMPANY.

Table No. III shows the fixed capital of the Home Company as of June 30, 1916, as shown by the Home Company's books and reported by the Railroad Commission's Auditing Department in Railroad Commission's Exhibit No. 1.

Table No. III.

#### Fixed Capital--Riverside Home Telephone and Telegraph Company--June 30, 1916.

Cost of property and plant,	\$531,337.78	
To outstanding stock at par,		\$255,000.00
" " bonds "		250,000.00
Notes payable, viz:		
June 9, 1906, National Bank of California,		3,200.00
July 3, 1906,		3,100.00
Nov. 15, 1906,		8,863.00
Dec. 6, 1906, Bank,		2,000.00
April 25, 1908, Bal. 1st National/Riverside,		4,000.00
May 1, 1908, Automatic Electric 867.20,		3,000.00
Paid and held Aug. 17, 1908, by Constructing and Engineering Company,		882.37
To unpaid matured coupons #6 and #7 on Bond 129,		25.00
To Bank Account overdraft,		<u>1,267.41</u>
Original charges to Plant as above,	\$531,337.78	
<u>Less</u> Stock issues	\$255,000.00	
Cash funds on hand	98.00	
Store room inventory	<u>3,298.22</u>	<u>258,396.22</u>
		\$272,941.56
<u>Plus</u> Additions and betterments Oct. 1, 1912 to December 31, 1913,		<u>26,780.85</u>
		\$299,722.41
<u>Less</u> Retirement 1914	625.30	
1915	3,173.10	
1916	<u>2,104.22</u>	<u>5,902.62</u>
Fixed Capital installed prior to Jan. 1, 1914,		\$293,819.79
Fixed Capital installed since Dec. 31, 1913,		
Year ending Dec. 31, 1914	965.67	
" " " 31, 1915	938.08	
1/2 " " June 30, 1916	<u>370.80</u>	<u>2,274.55</u>
Fixed Capital installed June 30, 1916 .....		\$296,094.34

4. VALUATION--HOME TELEPHONE COMPANY.

The Pacific Company filed herein an inventory of the real estate, plant, equipment, materials and supplies of the Home Company as of May 31, 1915, with the estimated investment and also the estimated structural value of the property on May 31, 1915. By "estimated investment", as those words are used in this proceeding, the Pacific Company apparently means an estimated cost to reproduce the property based on prices actually paid for material and labor from June 1, 1912, to June 30, 1915. By "structural value", the Pacific Company means "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."

Table No. IV shows the estimated investment and the structural value of the real estate, plant, equipment, materials and supplies of the Home Company as of May 31, 1915, as reported by the Pacific Company's engineers.

Table No. IV.

Estimated Investment and Structural Value - Plant,  
Equipment, Materials and Supplies of Riverside  
Home Telephone and Telegraph Company, as Estimated  
by The Pacific Telephone and Telegraph Company.

	<u>Estimated Investment</u>	<u>Structural Value.</u>
Right of way	\$ 5,748.32	\$ 5,635.68
Buildings	12,617.00	11,699.00
Land	16,150.00	16,150.00
Central Office operating equipment	51,090.59	38,010.60
Station apparatus	17,708.08	15,050.11
Station installations	4,592.93	3,903.68
Interior block wires	73.26	32.98
Exchange pole lines	77,048.36	65,313.46
Exchange aerial cable	62,441.69	37,618.49
Exchange aerial wire	33,040.31	23,873.81
Exchange underground conduit - main	11,646.00	11,646.00
Exchange underground conduit - subsidiary	1,647.24	1,647.24
Exchange underground cable - main	6,418.35	6,083.35
Exchange underground cable - subsidiary	1,992.72	1,825.45
Exchange house cable	62.59	59.39
Office furniture and fixtures	599.25	412.19
General store equipment	67.14	43.68
General stable and garage equipment	1,125.00	731.25
General tools and implements	219.08	106.05
Interest during construction	1,543.17	1,260.13
Materials and supplies	<u>7,540.92</u>	<u>4,279.91</u>
Total.....	\$313,372.00	\$245,382.65

The Railroad Commission's Engineering Department presented an inventory of the tangible property of the Home Company, together with an estimate of its reproduction cost and its reproduction cost less accrued depreciation as of June 1, 1916.

Table No. V shows, by accounts, the Engineering Department's estimated reproduction cost and estimated reproduction cost less depreciation of the Home Company's tangible property.

TABLE NO. V.

ESTIMATED REPRODUCTION COST AND ESTIMATED REPRODUCTION COST LESS DEPRECIATION OF TANGIBLE PROPERTY OF RIVERSIDE HOME TELEPHONE AND TELEGRAPH COMPANY, AS REPORTED BY RAILROAD COMMISSION'S ENGINEERS, JUNE 1, 1916.

Item	:Reproduction : cost :	:Cond. :per :cent.:	:Reproduction :cost less de- :preciation
Right of way	\$ 4,666.00	100	\$ 4,666.00
Land	16,150.00	100	16,150.00
Buildings	14,624.00	73	10,676.00
Central Office Telephone Equipment	50,412.00	65	32,813.00
Station Apparatus	17,673.00	72	12,725.00
Station installations	4,377.00	85	3,720.00
Interior Block Wires	71.00	62	44.00
Exchange pole lines	74,183.00	75	55,637.00
Exchange aerial cable	63,704.00	60	38,222.00
Exchange aerial wire	33,166.00	64	21,248.00
Exchange underground conduits	11,903.00	82	9,760.00
Exchange underground cable	8,292.00	83	6,855.00
Office furniture and fixtures	599.00	69	412.00
General store equipment	67.00	65	44.00
General stable and garage equipment	1,125.00	65	731.00
General tools and implements	219.00	48	106.00
Materials and supplies on hand for use in California	7,541.00	57	4,280.00
 GRAND TOTAL	 308,772.00	 70.6	 218,089.00

It will be observed from Tables Nos. III, IV and V that there is close agreement between the book cost of the property reported by the Railroad Commission's Auditing Department to be \$296,094.34, the reproduction cost new of the property estimated by the Railroad Commission's engineers as being \$308,772.00 and the "estimated investment" as reported by the Pacific Company's engineers, as being \$313,372.00. On the other hand, there is a substantial difference, as in all these proceedings, between the "structural value" reported by the Pacific Company herein to be \$245,382.65, and the "reproduction cost less depreciation" reported by the Railroad Commission's engineers to be \$218,089.00. The reason for this difference has been fully set forth in the Railroad Commission's Decision No. 3747, made on October 2, 1916, in Application No. 2265, the Santa Barbara Telephone Consolidation Case, and the decision made on November 4, 1916, in Application No. 2227, being the Los Angeles Telephone Consolidation Case.

Attention should be drawn to the fact that the property appraised by the engineers of the Pacific Company and of the Railroad Commission as shown in Tables Nos. III and IV, is the entire tangible property owned by the Home Company, without any reference to the question whether the property is actually used and useful in the public service or whether it will represent a needless duplication if consolidated with the property of the Pacific Company.

##### 5. DUPLICATION OF PROPERTY.

In response to a request from the Railroad Commission that the Pacific Company indicate "how much of the purchased plant will become worthless by reason of the consolidation," the Pacific Company filed herein as Exhibit No. 6 of Petitioners, a "statement of structural value of property purchased and not used or useful in rendering service after consolidation in Riverside." In this

statement the Pacific Company reports that the structural value of the entire property purchased but not used and useful in rendering service after consolidation, will be the sum of \$6,836.81, consisting of an item of \$4,887.44 for station apparatus, an item of \$1,260.07 for station installations and an item of \$689.30 for exchange aerial wire. This statement was prepared on the assumption that as the result of the consolidation, 398 of the 422 existing duplicate telephone stations will be taken out. ~~xx the amount of the consolidation.~~ Apart from these telephone stations and the station installations and exchange aerial wire immediately connected therewith, the Pacific Company reported no other property as being no longer used and useful in rendering service after the proposed consolidation has been effected.

The Railroad Commission's Telephone Department made a detailed study of the duplication of telephone plant after the consolidation of the plant of the Pacific Company and of the Home Company in and adjacent to Riverside. The report ~~immediately~~ embodying this study, as of July 8, 1916, was introduced herein as Railroad Commission's Exhibit No. 3. In this exhibit, the Telephone Department analyzes the property of the Home Company, by accounts, in considerable detail and reports the extent to which, in its judgment, after an ample allowance for ~~the~~ future growth, the property of the Home Company will represent needless duplication if the consolidation should be effected.

Table No. VI is the estimate of the Railroad Commission's Telephone Department of the value of the property of the Home Company considered by the department to be needless duplication after the consolidation.



Table No. VI

Needless Duplication--Property of Riverside Home  
Telephone and Telegraph Company after  
Consolidation.

<u>Item</u>	<u>Values</u>
Station apparatus	\$ 7,515.36
Station installations	2,064.23
Exchange pole lines	36,967.42
Exchange aerial cable	10,727.36
Exchange aerial wire:	
Bare wire and W.P.	4,887.18
Duplex	168.91
Drop wires	1,190.40
U. G. Conduit main	668.50
U. G. Cable main	976.30
Materials and supplies	<u>2,313.45</u>
Total,	\$67,479.11
Central Office equipment	
70.9% needless duplication	<u>\$26,949.66</u>
Total	\$94,428.77

Assistant Engineer T. R. Gray, who prepared the details of Railroad Commission's Exhibits Nos. 3 and 5, testified that the needless duplication after the proposed consolidation would represent in value of property 15 per cent of the combined plants of the Pacific Company and the Home Company if land and buildings are not included and 20 per cent if land and buildings are included. This estimate is based on an allowance of surplus capacity for the growth of the next five years.

6. EARNINGS AND EXPENSES--HOME COMPANY.

Exhibit No. 8 of Petitioners shows the earnings and expenses of the Home Company for the five years ending December 31, 1911 to December 31, 1915, inclusive.

Table No. XII shows, in consolidated form, the data reported in Exhibit No. 8 of Petitioners.

TABLE NO. VII.

REVENUES AND EXPENSES - RIVERSIDE HOME TELEPHONE AND  
TELEGRAPH COMPANY - YEARS ENDING DECEMBER 31,  
1911 TO DECEMBER 31, 1915, INCLUSIVE.

Item	1911	1912	1913	1914	1915
Operating Revenues	\$32,834.51	\$33,278.27	\$28,911.37	\$26,810.54	\$23,384.33
Operating Expenses	19,172.84	18,331.94	20,971.11	15,879.74	15,306.79
Net operating revenue .....	13,661.67	14,946.33	7,940.26	10,930.80	8,077.54
Taxes assignable to operations:	735.68	1,878.90	1,402.36	1,343.95	985.38
<u>Operating Income:</u>	12,925.99	13,067.43	6,537.90	9,586.85	7,092.16
<u>Non-Operating Revenues:</u>					
Miscellaneous Rent Revenues	520.00	-----	400.00	240.00	240.00
Interest Revenues	-----	-----	-----	-----	241.34
Profits from operations of others	-----	-----	-----	95.00	375.00
Miscellaneous	1,371.86	-----	2,483.14	1,286.96	1,190.74
Total Non-operating Revenues .....	1,891.86	-----	2,883.14	1,621.96	2,047.08
Gross Income	14,817.85	13,067.43	9,421.04	11,208.81	9,139.24
<u>Deductions from Gross Income:</u>					
Misc. Non-operating expense	-----	-----	-----	148.50	185.63
Non-operating taxes	-----	-----	-----	54.90	79.74
Rent for telephone office	-----	120.00	120.00	120.00	120.00
Interest on funded debt	13,775.00	13,787.50	13,775.00	13,775.00	13,775.00
Other interest	1,456.85	2,048.63	1,113.39	1,312.39	10.20
Miscellaneous	414.98	-----	319.93	-----	-----
Total deductions	15,646.83	15,956.13	15,328.32	15,410.79	14,170.57
Net deficit	828.98*	2,888.70*	5,907.28*	4,201.98*	5,031.33*

\*Deficit

The statement of earnings and expenses filed by the Home Company includes no allowance for depreciation. The company has never set up a depreciation reserve. The Pacific Company's engineers estimate that if a proper allowance had been set up for depreciation reserve in the year 1915, this allowance would have been \$19,766.00. If the proper amounts had been set aside for depreciation reserve, year by year, the financial showing of the Home Company would have been even more unsatisfactory than appears from Table No. VII.

As shown by Railroad Commission's Exhibit No. 1, the Home Company's total operating deficit on June 30, 1916, was \$34,157.73. No bond interest has been paid since 1912.

7. EARNINGS AND EXPENSES--PACIFIC COMPANY.

The Pacific Company filed as Exhibit No. 9 of Petitioners a statement of the revenues and expenses of the Pacific Company for its Riverside exchange during the years ending December 31, 1911, to December 31, 1915, inclusive.

Table No. VIII is a consolidation of the data shown in said exhibit.

TABLE NO. VIII

Earnings and Expenses  
The Pacific Telephone and Telegraph Company  
Years ending Dec. 31, 1911 to December 31, 1915.  
Inclusive.  
 Riverside Exchange

Item	1911	1912	1913	1914	1915
<b>Earnings:</b>					
Exchange Revenue	47,062.21	48,181.07	49,736.80	53,929.27	56,988.75
Toll "	5,164.44	6,253.76	6,845.64	5,668.30	5,972.02
Licensee " (Dr)	2,290.93	2,396.03	2,342.58	2,640.81	2,793.58
Miscellaneous	-	-	1,069.64	910.26	1,023.85
Total	49,935.72	52,038.80	55,309.50	57,857.02	61,191.04
<b>Expenses:</b>					
General	1,323.93	1,405.05	1,964.23	2,834.17	22,017.61
Commercial	9,239.87	8,929.38	9,244.11	9,146.60	9,701.60
Traffic	9,349.74	9,909.13	11,454.12	12,069.48	13,587.84
Rights, Privileges and use of property	86.00	66.06	-	-	-
Insurance	100.41	121.30	-	-	-
Rent of Offices	-	-	55.52	298.24	209.07
Rent for conduits, poles, etc.	-	-	45.74	76.96	71.35
Repairs	6,845.78	7,251.48	8,180.95	8,498.87	7,015.82
Station Removals and changes	4,741.63	3,790.79	4,635.25	3,328.10	3,066.72
Depreciation	22,709.00	23,385.86	24,134.71	24,710.11	25,038.48
Taxes	1,582.58	1,755.22	2,097.63	3,298.38	3,724.65
Uncollectible	-	-	214.73	226.85	388.95
Total	55,978.94	56,614.27	62,026.99	64,487.76	84,822.09
Net Revenue	*6,043.22	*4,575.47	*6,717.49	*6,620.74	*23,631.05

\*Deficit.

The item of \$22,017.61 for "general expense" shown in the operating expenses for the year 1915 is abnormally high by reason of including abnormal valuation expenses. The Pacific Company accordingly filed as Exhibit No. 10 of Petitioners a revised statement of the earnings and expenses of the Riverside exchange for the year 1915, in which statement the item of "general expense" is reduced to \$8,715.31. The result of this change is to reduce the claimed deficit for the year 1915 from \$23,631.05 to \$10,331.75.

Attention should be drawn to the fact that the amounts claimed under the head of "depreciation" in the statements of earnings and expenses filed by the Pacific Company are not amounts actually set up on the books of the Pacific Company, but are estimates by the Pacific Company's engineers of the amounts which should have been set up. The amounts claimed by the Pacific Company with reference to its Riverside property are annually between 6.9 per cent and 7 per cent of the claimed value of the depreciable property.

#### 8. PLAN OF CONSOLIDATION.

##### (a) Service.

At the present time, the subscribers of the Pacific Company in the Riverside exchange all have manual telephone instruments and can converse only with other subscribers of the Pacific Company. The subscribers of the Home Company all have automatic instruments and can converse only with other subscribers of the Home Company. In so far as long distance service is concerned, the subscribers of the Pacific Company have access only to the long distance lines of the Pacific Company and the subscribers of the Home Company have access only to the long distance lines of the United States Long Distance Telephone and Telegraph Company.

The plan of consolidation herein proposed contemplates that each telephone subscriber in and adjacent to Riverside, whether his telephone instrument is manual or automatic, shall be able to converse in local exchange service with every other subscriber. The plan further contemplates that each subscriber, whether his instrument is manual/<sup>or</sup>automatic, shall be able to converse, without discrimination, over the long distance lines of the Pacific Company and of the United States Long Distance Telephone and Telegraph Company. In other words, every subscriber, whether his telephone instrument is manual or automatic, will have universal local exchange service and universal long distance service.

In order to accomplish this result, it is proposed to install an additional subscribers' section in the Pacific Company's exchange and to extend the subscribers' multiples through this section. This equipment will give facilities to handle traffic coming from stations equipped with automatic apparatus to stations equipped with manual apparatus. It is also proposed to install sufficient additional outgoing trunk multiples through the manual board to handle the calls from the subscribers equipped with manual operators to the subscribers equipped with automatic operators, and to equip two positions with dialing apparatus requisite for this purpose. Answering jacks necessary for terminals for the incoming trunking circuits from the automatic operators will be installed. The necessary number of circuits will be installed for the trunk lines between the manual and automatic switchboard.

The necessary changes will also be made so as to permit the long distance service hereinbefore referred to.

When these changes have been made, automatic subscribers will be able to converse with automatic subscribers and manual subscribers with manual subscribers, as heretofore.

An automatic subscriber will be able to converse with a manual subscriber by dialing the manual switchboard, at which point the call will be answered by an operator and completed in the usual manner. Conversely, a manual subscriber desiring to converse with an automatic subscriber will dial the operator, who will then connect him with the automa<sup>tic</sup>/subscriber.

The existing telephone exchange at Arlington will be retained.

The cost of consolidating the two systems will be approximately \$10,000.00.

Mr. W. G. Middleton, one of the Railroad Commission's telephone engineers, testified that the average time intervening between commencing to dial an automatic instrument and the ringing of the bell on the receiving instrument is between five and six seconds; that the average time intervening between taking off the receiver of the manual instrument and the ringing of the bell on the receiving instrument is eight seconds; and that the average time which will intervene for a similar transaction from an automatic instrument to a manual instrument will be ten seconds and from a manual instrument to an automatic instrument, approximately twelve seconds.

The order herein will contain a number of conditions with reference to service. It will be provided that every subscriber in the territory affected, whether his instrument is manual or automatic shall be able to converse with every<sup>other</sup>/subscriber in local exchange service and that each subscriber, present and prospective, shall have absolute freedom of choice with reference to the type of instrument which he desires to use. Similarly, provision will be made so that each subscriber shall be able to use, without discrimination, the long distance telephone lines of the Pacific Company and of the United States Long Distance Telephone and Telegraph Company.



As already shown, the service rendered by the Home Company has become very unsatisfactory. The order herein will contain a condition making it the duty of the Pacific Company to give absolutely first class service over its automatic phones as well as its manual phones.

The order will also contain conditions with reference to the keeping of trouble records and the filing of station removal and changes and consolidation progress reports with the Railroad Commission.

(b) Rates.

Table No. IX shows the business and residence rates of the Pacific Company and of the Home Company in the Riverside exchanges, on file with the Railroad Commission.

TABLE NO. IX

Business and Residence Service - The Pacific Telephone  
and Telegraph Company and Riverside Home Telephone  
and Telegraph Company - Riverside Exchanges

	<u>Pacific Company</u>		<u>Home Company</u>	
	<u>1½ Mile Radius</u>		<u>1 Mile Radius</u>	
<u>BUSINESS</u>	<u>Wall</u>	<u>Desk</u>	<u>Wall or Desk</u>	
1 party	3.00	3.00	3.00	
Selective	-	-	2.25	
<u>Extensions</u>	<u>With Bell</u>	<u>Without Bell</u>	<u>With Bell</u>	<u>Without Bell</u>
Same room	1.00	1.00	1.00	.75
Another room	1.00	1.00	1.25	1.00
Another building	1.50	1.50	1.25	1.00
	<u>1½ Mile Radius</u>		<u>1 to 1½ Mile Radius</u>	
1 party	3.00	3.00	3.00	
Selective	-	-	2.50	
	<u>1½ Mile Radius</u>		<u>1 Mile Radius</u>	
<u>RESIDENCE</u>	<u>Wall</u>	<u>Desk</u>	<u>Wall or Desk</u>	
1 party	2.25	2.25	1.75	
2 "	2.00	2.25	-	
4 "	1.75	2.00	-	
Selective	-	-	1.75	
<u>Extensions</u>	<u>With Bell</u>	<u>Without Bell</u>	<u>With Bell</u>	<u>Without Bell</u>
	<u>Wall</u>	<u>Desk</u>	<u>Wall or Desk</u>	
Same room	.65	1.00	1.00	.75
Another room	.65	1.00	1.25	1.00
	<u>1½ Mile Radius</u>		<u>1 to 1½ Mile Radius</u>	
1 party	2.25	2.25	1.75	
2 "	2.00	2.25	-	
4 "	1.75	2.00	-	
Selective	-	-	1.75	

TABLE NO. IX (cont'd)

Between 1½ and 5 Miles

	<u>Pacific Company</u>		<u>Home Company</u>
<u>BUSINESS</u>	<u>Wall</u>	<u>Desk</u>	<u>Wall or Desk</u>
*1 party	5.25	5.25	3.00
4 "	3.25	3.50	-
Suburban	2.25	2.50	-
Selective	-	-	2.50

RESIDENCE

# 1 party	(See foot note)		2.00
4 "	2.75	3.00	-
Suburban	1.75	2.00	-
Selective	-	-	1.75

Between 5 and 9 miles

BUSINESS

% 1 party	7.25	7.25	3.00
4 "	3.75	4.00	-
Suburban	2.75	3.00	-
Selective	-	-	2.25

RESIDENCE

# 1 party	(See foot note)		2.00
4 "	3.25	3.50	-
Suburban	2.25	2.50	-
Selective	-	-	1.75

Note: \*Rates quoted by Pacific Company for Casa Blanca and Highgrove.

#Takes primary rate plus mileage.

%Rates quoted by Pacific Company for Arlington.

At the hearing herein, the Pacific Company's representatives stated that it was their purpose, if the consolidation is permitted, to change the company's primary rate area in the Riverside exchange and to increase all the so-called "obsolete" or "irregular" rates to what the Pacific Company calls its "standard" rates. If this increase is permitted, the result will be that 512 subscribers will be compelled to pay increased rates with resulting increased net revenue of \$3600.00 per year to the Pacific Company.

The Railroad Commission is now engaged, in Application No. 1870, filed by the Pacific Company, in a state-wide inquiry into the reasonableness of the rates charged by the Pacific Company for local exchange<sup>telephone</sup>/service in each of the company's exchanges in the State of California. When the decision in this application is rendered, just and reasonable rates will be established for the Pacific Company's Riverside exchange as well as its other local exchanges. The Railroad Commission is not as yet in a position to determine what rates will be just and reasonable in the Pacific Company's Riverside exchange. The Pacific Company's proposal herein contemplates an increase of all existing rates to the highest rates charged by the company for the respective classes of service in its Riverside exchange. While it is undoubtedly true that some of the low rates accorded to individual subscribers and not enjoyed by other subscribers, must hereafter be increased, it by no means follows that the rates hereafter to be established in Application No. 1870 for the various classes of service rendered in the Riverside exchange will necessarily be as high as the highest rates now charged by the Pacific Company for the respective classes of service rendered by it in the Riverside exchange. Under these circumstances, it would seem wiser to defer the establishment of rates until the Commission has had an opportunity to reach a decision, based on complete evidence, in Application No. 1870.

Until such decision is rendered, each manual subscriber

of the Pacific Company in its Riverside exchange and each automatic subscriber of the Home Company shall continue to receive service at the rates which they heretofore have been paying. A new subscriber shall have his choice as to whether he desires a manual instrument or an automatic instrument and the rates which he shall pay shall be the rates which have heretofore been filed with the Railroad Commission by the Pacific Company and the Home Company, respectively. We are not willing to accede to the Pacific Company's suggestion that all new subscribers shall pay the Pacific Company's rates, even though such subscribers desire an automatic instrument carrying a lower rate than the Pacific Company's rates. In other words, the rates are to remain just as they are, both for manual subscribers and automatic subscribers, and any changes therein should await the decision in Application No. 1870.

(c) EARNINGS AND EXPENSES.

The Pacific Company filed as Exhibit No. 11 of Petitioners, a statement of the estimated revenues and expenses of the consolidated property during the year succeeding consolidation, as shown in Table No. X.

TABLE NO. X.

Estimated Revenues and Expenses-  
Riverside Telephone Systems - Consolidated-  
Year succeeding Consolidation.

OPERATING REVENUES:

Exchange Service Revenues	\$72,704.88
Toll " "	7,495.86
Miscellaneous Operating "	1,295.74
Licensee Revenue, Dr.	3,586.67
 TOTAL	 \$77,909.81

DEDUCTIONS:

Telephone Operating Expense,		
Ordinary Repairs	\$10,990.00	
Station Removals and		
changes	4,550.00	
Depreciation	44,207.00	
Total Maintenance Ex-		
pense	\$59,747.00	
Traffic Expense	16,428.00	
Commercial expense	12,075.00	
General Expense	3,224.00	\$91,474.00
Other Deductions,-		
Uncollectible	\$ 497.00	
Taxes	4,997.00	
Rent Deductions for Tel. Offices	329.00	
" " " Conduits, Poles &		
Other Supports	71.00	\$ 5,894.00
 TOTAL,		 \$ 97,368.00
 BALANCE NET REVENUE:		 \$ 19,458.19*

\* Deficit.

It will be observed from Table No. X that the Pacific Company reports that during the year succeeding the consolidation the company will have a deficit in net revenues of \$19,458.19, without any allowance for a return on the investment.

(d) Consideration.

The Pacific Company proposes to pay the sum of \$245,382.65 in cash for the property to be acquired from the Home Company. It is proposed by the Pacific Company to pay this money to itself as the owner of the capital stock of the Home Company, thereafter to pay the bonds of the Home Company, also owned by the Pacific Company with the exception of one bond of the face value of \$500.00, and thereafter to disincorporate the Home Company.

Said sum of \$245,382.65 is the sum reported to the Pacific Company by its engineers as being the so-called "structural value" of the property to be acquired from the Home Company. That this property, ~~understanding~~ as an ordinary business proposition, is not worth anywhere nearly this sum is entirely clear from the evidence.

The so-called "structural value" of the property is not the value of the property in use or its value in view of possible earnings under reasonable rates, but is simply the amount which the Pacific Company's engineers reported to be the estimated cost to reproduce the physical property new less certain depreciation obvious from an inspection of the property.

It seems clear that a property might have cost one million dollars to construct and might at the present time cost one million dollars to reproduce and yet have but very little if any money value to anybody. Hence, it by no means follows that a fair value of the property to be acquired by the Pacific Company from the Home Company has any material relationship to the so-called "structural value" as reported by engineers.

It is at once obvious that the so-called "structural value" of \$245,382.65 entirely fails to take into consideration the needless duplication which will exist as between the property of the Pacific Company and the property now owned by the Home Company, after consolidation has been effected. As already indicated, the Railroad Commission's engineers report that with all reasonable allowance for future growth of the business, needless duplication amounting to \$94,428.77 will exist after the consolidation is effected.

Furthermore, a glance at the statement of earnings and expenses before consolidation and also after consolidation will show the absurdity of claiming that the fair value of the Home Company's property is any such sum as \$245,382.65.

As already shown, the Pacific Company's revised estimate of deficit in net revenue from its operations in the Riverside exchange in the year 1915 was the sum of \$10,331.75. Attention has also been directed to the Pacific Company's estimate of deficit in net revenue to accrue from the consolidated property during the first year succeeding consolidation. This estimate was \$19,458.19. In other words, the Pacific Company proposes to pay \$245,382.65 in cash for the privilege of increasing its deficit in net revenue from \$10,331.75 to \$19,458.19 per year.

If the rates now charged in Riverside were abnormally low, so that a very substantial increase in revenue might hereafter be anticipated from increased rates, the situation would be different. We are satisfied, however, from a comparison of the Riverside rates with rates obtaining in other communities of similar population, that these rates are certainly not abnormally low. Under these circumstances, it would appear too clear for contradiction that the property to be acquired by the Pacific Company from the Home Company is not worth either on the market or to the Pacific Company any such sum as \$245,382.65.



The property can be used to render service to the relatively few remaining automatic subscribers and a portion of the property may be expected to be used by the Pacific Company as its business in Riverside increases. To this extent and to this extent only should value be assigned to this property, except possibly to the extent that the remaining property may have scrap value.

The order herein will authorize the transfer of the Home Company's property to the Pacific Company but no specified price will be authorized. It is not necessary to state such price, both by reason of the fact that the Pacific Company is virtually selling the property to itself and also by reason of the fact that hereafter when rates are established to be charged by the Pacific Company in its Riverside exchange, the true value of the consolidated property will then become apparent. This value will be the value which is given to the property from just and reasonable rates, determined not on the basis of needless duplication of property but on the basis of a single unified system, doing the work which will be done by the consolidated property in Riverside.

(c) Franchises.

The Pacific Company is operating in Riverside under a franchise granted by the City of Riverside by Ordinance No. 201, New Series, approved on April 5, 1915.

The Home Company is operating in Riverside under a franchise granted by the City of Riverside to E. M. Streeter and his assigns by Ordinance No. 193, passed on April 9, 1895. The plan of consolidation contemplates that the Home Company shall formally surrender this franchise to the City of Riverside. The order herein will contain a condition to this effect.

We submit the following form of order:

O R D E R.

THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY and RIVERSIDE HOME TELEPHONE AND TELEGRAPH COMPANY having filed their petition herein asking authority on behalf of Riverside Home Telephone and Telegraph Company, to convey its real estate, plant, equipment, materials and supplies to The Pacific Telephone and Telegraph Company, and authority on behalf of The Pacific Telephone and Telegraph Company to acquire said property, a public hearing having been held, and this proceeding having been submitted and being now ready for decision,

IT IS HEREBY ORDERED that Riverside Home Telephone and Telegraph Company be and the same is hereby authorized to sell and convey to The Pacific Telephone and Telegraph Company and The Pacific Telephone and Telegraph Company is hereby authorized to acquire, the property of Riverside Home Telephone and Telegraph Company, more particularly described in Exhibit No. 1, which is attached to and made a part of this order, on the following conditions and not otherwise, to-wit:

1. The authority herein granted shall not become effective until The Pacific Telephone and Telegraph Company shall have filed with the Railroad Commission a petition asking permission to acquire the capital stock of Riverside Home Telephone and Telegraph Company and until the Railroad Commission shall have rendered a decision on said application.

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 perform the acts herein specified, and shall have secured from the Railroad Commission a supplemental order herein, reciting that such stipulation, in form satisfactory to the

Railroad Commission, has been filed herein. In said stipulation, The Pacific Telephone and Telegraph Company shall undertake and agree, for itself, its successors and assigns, as follows:

(a) To accord to each telephone subscriber, present and prospective, in the City of Riverside and adjacent territory served out of the Riverside exchange of The Pacific Telephone and Telegraph Company, such telephone service, whether automatic or manual, as such subscriber may desire, and to give to each such subscriber access to each such other subscriber, without discrimination, in the Riverside exchange of The Pacific Telephone and Telegraph Company and to exercise absolute impartiality, both in service and in solicitation for business as between the automatic instrument and the manual instrument.

(b) To accord to each subscriber in the Riverside exchange, whether his telephone instrument is automatic or manual, access, without discrimination, to the long distance lines of The Pacific Telephone and Telegraph Company and United States Long Distance Telephone and Telegraph Company.

(d) To establish and thereafter maintain first class telephone service for all automatic subscribers in the Riverside exchange, the quality of the service thus to be rendered to be in all respects as good as the service rendered to the manual subscribers.

3. Until further order of the Railroad Commission, the rates applicable to the subscribers of The Pacific Telephone and Telegraph Company in its Riverside exchange shall be to each present telephone subscriber of The Pacific Telephone and Telegraph Company and Riverside Home Telephone and Telegraph Company the rate which he is now paying; to each subscriber who hereafter takes a manual instrument, the rates of The Pacific Telephone and

Telegraph Company for the Riverside exchange now on file with the Railroad Commission; and to each subscriber who hereafter takes an automatic instrument, the rates of Riverside Home Telephone and Telegraph Company now on file with the Railroad Commission.

4. Before the authority herein granted shall become effective, The Pacific Telephone and Telegraph Company shall have filed with the Railroad Commission a certified copy of a relinquishment to the City of Riverside of the rights granted by the City of Riverside to H. M. Streeter by Ordinance No. 193, passed on April 9, 1895, together with a certified copy of ordinance or resolution of the City of Riverside accepting the surrender of the rights thus conferred.

5. Unless hereafter otherwise authorized by order of the Railroad Commission, The Pacific Telephone and Telegraph Company shall continuously maintain and operate the Arlington telephone exchange.

6. Until further notice, The Pacific Telephone and Telegraph Company shall keep daily trouble records, separately for the automatic and the manual instruments, showing the nature, cause and disposition of all service complaints, which records shall at all times be open to inspection by representatives of the Railroad Commission.

7. Until further notice, The Pacific Telephone and Telegraph Company shall file with the Railroad Commission monthly records of all station removals and changes in its Riverside exchange, showing in each instance the character of the instru-

ments involved, whether automatic or manual, and the reason for the removal or change.

8. Until further notice, The Pacific Telephone and Telegraph Company shall file with the Railroad Commission monthly reports showing the progress of the consolidation herein authorized.

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 6th day of November, 1916.

Max Thelen  
H. H. Howard  
Alfred J. Gordon  
Edwin O. Eegston  
Frank R. Hobbs

Commissioners.

Exhibit No..1.

All the real estate, plant, equipment, materials and supplies of Riverside Home Telephone and Telegraph Company, wherever situated and constituting the telephone plant, exchange and system of Riverside Home Telephone and Telegraph Company in the City of Riverside, State of California, and in the territory adjacent thereto.