Decision No. 620

Decision No. 620

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of LOS GATOS TELEPHONE COMPANY for authority to issue capital stock of the par value of $15,000.

Application No.423.

Rufus E. Kimball for applicant.

THELEN, Commissioner.

O P I N I O N.

This is an application for an order of this Commission authorizing the issue of capital stock of the par value of $15,000 for the purposes hereinafter specified.

Los Gatos Telephone Company is one of the so-called independent telephone companies and serves the city of Los Gatos and territory adjacent thereto. The company has an arrangement with The Pacific Telephone & Telegraph Company providing for toll service.

Applicant was incorporated in November, 1910, with an authorized capital stock of $25,000, divided into 2500 shares of the par value of $10 each. Of the stock so authorized, 1955 shares have been issued. Of the shares so issued, 1705 were sold for cash at par and 250 were issued as commission in connection with the purchase by applicant of its plant, formerly owned by Pacific States Telephone & Telegraph Company. Applicant alleges that the cost of its plant with extensions thereto has been $22,372.15. In making this computation, no allowance has been made for depreciation except in so far as included in expenditures for repairs and extensions.

On the day of this hearing, March 19, 1913, applicant claimed to have 460 subscribers. During the period from December 1,

170

1911, to December 1, 1912, the number of applicant's subscribers increased by 79.

Applicant now applies for authority to issue 1500 shares of its capital stock at not less than par and to apply the same to the following purposes:

For the purchase of lot for new building, not to exceed		$4,000.00
For the erection of telephone building thereon, not to exceed		8,000.00
For refunding of promissory note for $1000, held by Bank of Los Gatos,		1,000.00
For new construction as follows:		
Additions to switchboard and protective equipment	$650.00	
2000 feet of 100 pair aerial cable,	832.50	
225 " 25 " " "	254.70	
750 " 50 " " "	499.52	
		2,236.72

Applicant's present equipment is housed in a rented building located at some distance from the logical wire center of Los Gatos. Applicant desires to purchase a lot more advantageously located with reference to a wire center and to erect thereon a fully equipped building to be devoted solely to its own purposes. It is clear that it would be advantageous for applicant to have its equipment located nearer the wire center, but it is not equally clear that it is necessary for this purpose to purchase a lot and erect thereon an $8,000 building. Applicant desires also to refund a promissory note for $1,000, now held by the Bank of Los Gatos, and to expend the sum of approximately $2,236.72 for aerial cable extensions and switchboard equipment as hereinbefore indicated, for the purpose of providing in part for its growing business.

It will be noted that of the moneys thus to be expended, the sum of $12,000 is to be spent for new revenue producing property. This fact necessitates an inquiry into applicant's

financial condition for the purpose of ascertaining whether applicant will be able to pay dividends on the additional capital stock proposed to be issued and also to finance the necessary extensions.

A summary of applicant's finances for the year ending November 30, 1912, is as follows:

Total operating revenue,	$9728.55	
Plant addition,	1468.46	
Net operating revenue,		$8,260.09
Operating expenses,		6,061.48
Net income,		$2,198.61
Dividends - 8% on $19,550 of stock,		1,564.00
Surplus,		$ 634.61

If applicant now issues additional capital stock of the par value of $15,000 and pays 8% dividends thereon, it will expend annually an additional sum of $1,200 for dividends. It is obvious that such payment cnn not be made out of a surplus of only $634.61. Applicant, however, draws attention to the fact that the erection of the new building would save the item of $540 for rent each year, $25 - $30 per season for heating, and the interest on a saving of some $800 in the matter of aerial cable extensions. Applicant also urges that when these improvements have been made it will be able to take care of new business, both waiting and prospective. In this connection applicant claims that it will be able to secure 150 additional customers within the city limits alone when it has installed the necessary additional cables.

Thus far, applicant has not taken depreciation into consideration further than as indefinitely included in repairs and extensions.

It is evident that if applicant isto pay its usual dividends both on the present outstanding and on the additional capital stock, it will have to look to new business. It is equally apparent that no provision has been made for financing the necessary

extensions. It is well known that in growing communities such as Los Gatos and vicinity the financing of new telephone extensions presents serious and unending difficulties.

It should be borne in mind that a utility's first duty is to render efficient and sufficient service for both its present and its prospective consumers.

I am not disposed to say to applicant that it shall not expend the sum of $12,000 for a lot and a new building thereon, , but I desire earnestly to draw applicant's attention to the necessity of conserving its resources to take care of the growing demands of the territory which it holds itself out as serving. Applicant should understand that this Commission will expect it to furnish adequate service on reasonable demand entirely irrespective of whether applicant purchases the new lot and erects the proposed building thereon.

As the purposes for which applicant desires to expend the proceeds of the additional capital stock are proper corporate purposes and fall within the classes of expenditures authorized by the Public Utilities Act, and as I do not desire to hamper applicant in its plans but have pointed out very material considerations which applicant should bear in mind in connection with this matter, I submit herewith the following form of order:

O R D E R.

LOS GATOS TELEPHONE COMPANY having applied to the Railroad Commission for authority to issue capital stock of the par value of fifteen thousand ($15,000) dollars for the purposes hereinafter specified, and a public hearing having been held upon said application, and the Commission finding that the purposes for which the issue is hereby authorized are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that LOS GATOS TELEPHONE COMPANY be and it is hereby authorized to issue its capital stock to the amount of fifteen thousand ($15,000) dollars, par value, on

the following conditions and not otherwise, to-wit:

1. Said capital stock shall be issued so as to net said company not less than par.

2. The proceeds from the sale of said stock shall be applied only to the following purposes, that is to say:

For the purchase of a lot for a new building, not to exceed ----------	$4,000.00
For the erection of a telephone building on said lot, not to exceed ------	8,000.00
For refunding promissory note for $1000 now held by Bank of Los Gatos,	1,000.00
For new construction as follows:	
For additions to switchboard and protective equipment, not to exceed--	650.00
For aerial cables, not to exceed-----	1,600.00

3. Los Gatos Telephone Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the capital stock hereby authorized to be issued, and on or before the 25th day of each month the company shall make verified reports to the Railroad Commission, stating the sale or sales of said capital stock during the previous month, the terms and conditions of sale, the moneys realized therefrom and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which in so far as applicable is made a part of this order.

4. This order shall become effective only when applicant's authorized capital stock has been increased in the manner specified by the statutes of this State, so that applicant's articles of incorporation authorize the issue of all the stock covered by this order.

5. The authority hereby given to issue capital stock shall apply only to capital stock issued by Los Gatos Telephone Company on or before the first day of April, 1914.

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 24th day of March, 1913.

John M. Eshleman

N. B. Lovelace

Max Thelen

Edwin O. Edgerton

Commissioners.