

Decision No.           

ORIGINAL

Decision No. 5314

BEFORE THE RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA

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In the Matter of the Application of the :	
UNION HOME TELEPHONE & TELEGRAPH COR-	
PORATION for authorization to sell prop-	
erty and franchises to The Pacific Tele-	Application
phone and Telegraph Company, and of THE :	<u>No. 2920</u>
PACIFIC TELEPHONE AND TELEGRAPH COMPANY :	
for authorization to sell property and :	
franchises to Union Home Telephone & :	
Telegraph Corporation. :	

- W. W. Butler, for Union Home Telephone & Telegraph Corporation.
- ✓ James T. Shaw and E. D. Pillsbury, for The Pacific Telephone and Telegraph Company.
- G. H. Scott, for City of Santa Ana.
- Walter Eden, Santa Ana, for Associated Chambers of Commerce.
- E. J. Ames, Anaheim, for Associated Chambers of Commerce and City of Anaheim.
- E. A. Mills, for Anaheim Board of Trade.
- W. R. Garrett, Orange, for Associated Chambers of Commerce and City of Orange.
- C. R. Allen and Harold C. Coyle, for City of Fullerton.
- C. R. Allen, for Fullerton Board of Trade.
- George L. Hoodenpyl, for City of Long Beach.
- W. W. Guthrie, for City of San Bernardino.
- M. O. Hurtt, for City of Colton.
- R. E. Hodge, for City of Rialto.
- Louis N. Whealton, for protestants.

EDGERTON, Commissioner.

O P I N I O N

Union Home Telephone & Telegraph Corporation and The Pacific Telephone and Telegraph Company join in this application and ask for authority to exchange certain telephone

properties and as an incident Union Home Telephone & Telegraph Corporation asks authority to sell certain securities to The Pacific Telephone and Telegraph Company.

The main purpose sought to be served by applicants is to eliminate competition in certain territory in southern California by a consolidation of telephone properties which will in certain instances leave the field to one company and in other instances to the other company.

The engineers of the Railroad Commission and the engineers of the companies have made valuations of the property proposed to be exchanged, with the following result:

Valuation of Properties of Pacific  
and Union Home Companies as of  
December 31, 1916

	<u>Pacific Company</u>	<u>Union Home Company</u>
<u>Railroad Commission Engineers:</u>		
Reproduction Cost - New	\$407 495.96	\$417 501.37
Reproduction Cost less Depreciation	342 247.72	317 029.70
<u>Company Engineers:</u>		
Estimated Investment*	410 659.68	429 995.65
Estimated Investment less Deterioration**	359 687.95	359 546.86
Estimated Investment based on current prices	523 768.71	554 752.72
Present Value	462 750.43	468 891.64

\* Corresponds to "Reproduction Cost New"  
 \*\* Corresponds to "Reproduction Cost less Depreciation"

It will be noted that the engineers of the companies find the value of the properties to be exchanged, estimated on the investment less deteriora-

tion basis, to be almost exactly the same; whereas the engineers of the Railroad Commission find, on the reproduction cost less depreciation basis, that the properties of the Pacific Company have a value of approximately \$25,000 more than the properties of the Union Home Company.

I believe the benefits to be derived by the Pacific Company from the consolidation proposed are such as to warrant disregarding such a comparatively slight difference as may exist between the values of these properties.

As a part of this whole transaction, Union Home Telephone & Telegraph Corporation asks authority to issue and sell to The Pacific Telephone and Telegraph Company \$219,000 face value of bonds for \$182,500 cash which is a ratio of 83 1/3 per cent of par. With the proceeds of the sale of these bonds the Union Company will pay off \$182,500 face value of debentures, said debentures having fallen due November 1, 1917.

Also The Pacific Telephone and Telegraph Company is to loan Union Home Telephone & Telegraph Corporation a sum not in excess of \$30,000, serial notes at 6 per cent interest, (the principal to be paid \$5,000 annually) to be issued for such loan. This money, or so much thereof as may be necessary, is to be used by Union Home Telephone & Telegraph Corporation to bring about the physical consolidation of these plants.

While the financial condition of Union Home Telephone & Telegraph Corporation is such that the authorization of the issuance of these securities to go to the public would not be warranted, it is clear that this whole transaction will be of benefit to both of these companies and inasmuch as The Pacific Telephone and Telegraph Company is fully advised of the value of these securities and their purchase can in no wise affect the rates or service to be given the public, and as these securities will be held by The Pacific Telephone and Telegraph Company and not sold to the public, I believe the proposal should be sanctioned.

Furthermore, the debentures proposed to be retired by the money obtained from the issuance of bonds are secured by \$ 500,000 face value of bonds and in the event that these debentures are not paid the bonds held as security would become outstanding, thus diluting the interests of existing bondholders. Of course the order should provide that upon payment of these debentures the bonds pledged as security therefor should be returned to the treasury of Union Home Telephone & Telegraph Corporation to await any further order of this Commission.

The consolidation of these telephone properties is on the whole in the public interest.

While at first the installation of competing telephone systems was welcomed, the waste, inefficiency and undue cost of maintaining two separate systems has come to be almost universally recognized.

As illustrating this feeling on the part of the public, it is to be noted that notwithstanding the widest publicity there was no protest against the proposal to consolidate.

There was very decided protest made to the proposal of the Pacific Telephone and Telegraph Company that all free switching be eliminated between exchanges and to the imposition of new rates for the consolidated service.

In the County of Orange The Pacific Telephone and Telegraph Company is to acquire all of the telephone properties of its competitor.

Partly as the result of competition there has been established the practice of permitting subscribers in one exchange to converse with subscribers in other exchanges at no additional charge over the regular exchange rates.

The Pacific Telephone and Telegraph Company proposes to do away with this practice, contending that conversation between exchanges is properly toll or long distance service and as such should carry a long distance charge.

The subscribers object to this proposal. Some insist that the present status both as to rates and free switching be maintained, others propose that no tolls for service between exchanges be charged for as such, but that the exchange rates of subscribers be raised to compensate the company for what is now free switching, while still others suggest that the

whole of Orange County be made, in effect, into one exchange and rates be fixed so as to compensate the company for providing universal service so that any subscriber in Orange County might telephone to any other subscriber in the county and pay no charge other than a flat monthly rate.

~~xx~~ Free  
switching between/exchange//is bad practice ~~xxxxxxxx~~  
logical area  
There is a clear and necessary distinction between exchange service and long distance service.

Exchange service is given between people who reside in a separate community where it is to the mutual interest that telephone connection be readily had at reasonable cost and without distinction as to cost because of distance separating subscribers. In such a community it may be assumed that each subscriber will use the telephone freely, and experience has demonstrated the wisdom of treating the community service as a whole.

(not necessarily confined within political boundaries)  
Service between communities, however, is on a different basis. Here there is not the need for frequent telephone connection between people who have not the same community or neighborhood interests. Hence comparatively few use such service either for business or pleasure and as such service is costly to maintain, if we exact no additional charge therefor we must impose this burden upon the many who seldom, if ever, use this service, for the benefit of the few.

We would all object for instance, to pay a rate for our residence telephones which would pay for

the long distance service between Los Angeles and San Francisco.

It is inevitable that those who use only the exchange service are paying a part of the charges which should be assessed against those who use the service between exchanges.

Free switching between exchanges <sup>here involved</sup> should be abolished and the established toll rates charged for conversation between subscribers in different exchanges.

It is of course proper that fair and logical boundaries be fixed for exchanges.

The evidence in this proceeding shows that not all of the exchange areas in Orange County are fair or logical. For instance there seems to be no justification for the imposition of separate exchange areas between Tustin and Santa Ana and there may be other instances, but the evidence is not such as to enable us to clearly set out the proper exchange areas. I shall recommend therefore that before free switching is abolished and new rates established, The Pacific Telephone and Telegraph Company present for our approval a plan of Orange County setting out fair and logical exchange areas.

The rates of the companies are not in all instances the same for like service and the service heretofore given has not been in all instances the same, and the new service given by the consolidated system will be different than that heretofore given by either company. Hence the need for new rates

for the new service. If the attempt were made to maintain the present rates, extreme and unjustifiable discrimination would result.

Sufficient evidence was introduced by The Pacific Telephone and Telegraph Company to show that the present rates are in many instances unreasonably low. The proposal of the company therefore to establish its minimum standard schedule is not unreasonable. With very few and minor exceptions this schedule of rates is as low for a like service as any in California.

While this schedule of rates will result in some increases, it is to be remembered that increased service will be given in that service to subscribers of both companies will be available at the new rates.

Also there will be available to all subscribers the long distance service of The Pacific Telephone and Telegraph Company and United States Long Distance Telephone and Telegraph Company, whereas now subscribers have access to only one long distance service. I therefore recommend that the rates proposed by the company be authorized.

In the San Bernardino district The Pacific Telephone and Telegraph Company is to acquire all of the property of Union Home Telephone & Telegraph Corporation outside of the City of San Bernardino and the Union Home Telephone & Telegraph Corporation is to acquire most of the exchange property of The



Pacific Telephone and Telegraph Company in said city, the latter to retire from all except long distance business in the city.

Free switching exists between exchanges in San Bernardino district. As in Orange County it is proposed to abolish this free switching and to establish The Pacific Telephone and Telegraph Company minimum standard schedule of rates except in San Bernardino City where the Union Home Telephone & Telegraph Corporation will apply its present rates to the new service.

All that has been said in discussing the Orange County situation applies with equal force to the San Bernardino district outside of the city of San Bernardino and I make the same recommendation except that there is no evidence that the exchange areas are not logical and therefore there is no need for rearranging them.

In Long Beach the Union Home Telephone & Telegraph Corporation is to acquire most of the exchange property of The Pacific Telephone and Telegraph Company, the latter to retire from all except long distance business. The Union Home Telephone & Telegraph Corporation will apply its existing rates to the new service.

In Wilmington, San Pedro and Ventura The Pacific Telephone and Telegraph Company is to acquire all of the property of Union Home Telephone & Telegraph Corporation and The Pacific Telephone and Telegraph Company will apply its present rates to its new service.

Herewith a form of order:

O R D E R

Union Home Telephone & Telegraph Corporation and The Pacific Telephone and Telegraph Company are hereby authorized to convey each to the other all of those certain franchises and telephone property, a description of which is set out in the application herein, reference to which is hereby made for particulars.

Upon the disposal of its telephone property as above mentioned, each said company is hereby authorized to cease and abandon telephone business conducted over such conveyed property.

The Pacific Telephone and Telegraph Company is hereby authorized to charge its regular telephone toll rates now on file with this Commission for telephone service given by the properties involved in this proceeding.

The Pacific Telephone and Telegraph Company is further authorized to establish and charge its minimum standard schedule of rates for exchange service given by the properties involved in this proceeding: provided, however, that before any changes in existing rates shall be made by The Pacific Telephone and Telegraph Company it shall file, for the approval of this Commission, a plan of Orange County setting out fair and logical exchange areas.

Union Home Telephone & Telegraph Corporation is hereby authorized to issue and sell to The Pacific Telephone and Telegraph Company, at not less than 83-1/3 per cent of par \$219,000 face value of first mortgage 5 per cent bonds. The proceeds thereof shall be used only to pay the indebtedness represented by \$182,500 face value of 6 per cent debentures due November 1, 1917. Immediately upon the payment of said debentures all bonds pledged as security therefor shall be returned to the treasury of Union Home Telephone & Telegraph Corporation and not thereafter to be issued except upon authorization of this Commission.

Union Home Telephone & Telegraph Corporation is further authorized to issue not to exceed \$30,000 face value of 6 per cent serial notes, the principal of which is to be paid \$5,000 annually. Said notes shall be sold to The Pacific Telephone and Telegraph Company at full face value and the proceeds thereof shall be used by Union Home Telephone & Telegraph Corporation to consolidate the telephone properties herein authorized to be purchased by it.

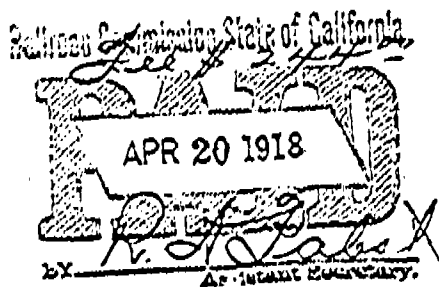
Union Home Telephone & Telegraph Corporation shall report to this Commission immediately upon the issuance of the bonds herein authorized and the payment of the debentures with the proceeds thereof; and shall make reports by the first of each month setting out in detail the expenditure of the money obtained from the issuance of the serial promissory notes authorized for the consolidation of its property.

The Pacific Telephone and Telegraph Company and Union Home Telephone & Telegraph Corporation shall make reports by the first of each calendar month setting out in detail the progress made in the consolidation of the telephone properties herein authorized.

The authority herein granted shall not become effective until applicant has paid the fee prescribed by section 57 of the Public Utilities Act.

Dated at San Francisco, California,

this 16<sup>th</sup> day of April, 1918.



Max Thelen

W. Gordon

Edwin O. Edgerton

Stam P. DeWitt  
Commissioners.