

ORIGINAL

Decision No. 5316

Decision No. _____

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SAN FERNANDO VALLEY HOME TELEPHONE COMPANY)
 for authority to sell property and fran-)
 chises to THE PACIFIC TELEPHONE AND)
 TELEGRAPH COMPANY, and of THE PACIFIC)
 TELEPHONE AND TELEGRAPH COMPANY for authori-)
 ty to acquire the same, and authorizing)
 SAN FERNANDO VALLEY HOME TELEPHONE COM-)
 PANY to withdraw from the telephone busi-)
 ness.)

Application No. 3280

- Walter F. Duan for San Fernando Valley Home Telephone Company,
- J. T. Shaw and Arthur Wright for The Pacific Telephone and Telegraph Company; and Southern California Telephone Company.
- H. R. Lynch for the Board of Trustees of Glendale, protestant.
- W. F. McCann for Lankershim Chamber of Commerce, protestant.

GORDON, Commissioner.

O P I N I O N

SAN FERNANDO VALLEY HOME TELEPHONE COMPANY, hereinafter sometimes referred to as the "San Fernando Company", asks authority to sell for \$103,862.72 its properties described in its Exhibit Number V, to THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, hereinafter sometimes referred to as the "Pacific Company". The Pacific Company joins in the application.

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

- 1.-San Fernando Valley Home Telephone Company;
- 2.-The Pacific Telephone and Telegraph Company;
- 3.-Appraisal of properties of San Fernando Valley Home Telephone Company;

- 4.- Purposes of consolidation and method;
- 5.- Rates;
- 6.- Revenues and Expenses after consolidation;
- 7.- Franchises.

1.- SAN FERNANDO VALLEY HOME TELEPHONE COMPANY:

San Fernando Valley Home Telephone Company was organized on or about June 2, 1904. The company has \$50,000.00 of stock and \$40,000.00 of first mortgage bonds outstanding. The company's annual report for the year ending December 31, 1916, shows that the stock is owned by the following:-

John H. Bartle,	250 shares,
J.M. Baldwin,	100 shares,
W.A. Chess,	50 shares,
W.F. Dunn,	50 shares,
W.F. Cornes,	50 shares,

J.M. Baldwin and his associates purchased the \$50,000.00 of stock on or about April 1, 1915 from L.C. Brand for \$15,000.00. The company's bonded indebtedness at that time is reported at \$40,000.00. The testimony shows that at the time of the stock purchase, J.M. Baldwin considered the properties of the San Fernando Company worth from \$85,000.00 to \$90,000.00.

Since April 1, 1915, about \$10,000.00 has been expended for improvements.

The San Fernando Company operates a telephone system in Glendale, Burbank, Tropicco, Lankershim and adjacent territory in Los Angeles County. It has an exchange located at Glendale, another at Burbank. On December 31, 1916, it had 228 stations connected to the Burbank exchange and 691 stations connected to the Glendale exchange, making a total of 919. It has reported revenues and expenses to the Railroad Commission for the years ending December 31, 1915 and 1916 as follows:-

TABLE NO. I.
REVENUE AND EXPENSES OF SAN FERNANDO VALLEY HOME TELEPHONE
COMPANY DURING 1916 and 1915.

I t e m	1 9 1 6	1 9 1 5
Telephone Operating Revenues	\$ 21,393.49	\$ 16,125.78
Telephone Operating Expenses	17,880.10	11,519.46
Net Telephone Operating Revenues	3,513.39	4,606.32
Taxes assignable to operations	867.33	836.29
Operating Income	2,646.06	3,770.03
Non-Operating Income	-	2,035.00
Gross Income	2,646.06	5,805.03
Deductions from Gross Income:		
Rent for office	672.00	306.00
Rent for conduits, poles, etc.	1,837.71	157.79
Interest on Funded Debt	1,935.00	1,500.00
Other Interest	70.00	-
Miscellaneous	37.84	-
Total Deductions	4,552.55	1,963.79
Net Income,	-	3,841.24
Net Loss,	1,906.49	-

2.- THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY:

The Pacific Telephone and Telegraph Company operates an exchange at Burbank, another at Glendale. On December 31, 1916, it had 133 stations at Burbank and 2,146 at Glendale, making a total of 2,279. In its Exhibit Number 3, it reports revenues and operating expenses and other deductions for the year 1916 assignable to the Burbank and Glendale exchanges as follows:

TABLE NO. II.
REVENUES AND EXPENSES OF THE PACIFIC TELEPHONE AND
TELEGRAPH COMPANY DURING 1916.

I t e m	Burbank	Glendale	Total
Operating Revenues	\$ 3,415.52	\$ 45,357.59	\$ 48,773.11
Operating Expenses	5,939.52	50,233.29	56,172.81
Net Operating Loss	2,524.00	4,875.70	7,399.70
Other Deductions:			
Taxes	11.44	2,586.64	2,598.08
Rent	628.33	1,215.18	1,843.51
Uncollectible Bills	21.99	329.79	351.78
Total Other Deductions	661.76	4,131.61	4,793.37
Total Loss for 1916,	3,185.76	9,007.31	12,193.07

The operating expenses for the Burbank exchange include \$1,950.56 for depreciation; those for the Glendale exchange \$19,076.57, making a total depreciation charge of \$21,027.13. The depreciation was figured at the rate of 6.64 per cent. Excluding

the depreciation, the earnings of the Burbank and Glendale exchanges resulted in a surplus of \$8,834.66 after the payment of taxes and rent.

Reference will hereafter be made to the estimated revenues and expenses during the first and second years following the proposed consolidation.

3.--APPRAISAL OF PROPERTIES OF SAN FERNANDO VALLEY HOME TELEPHONE CO.

I. F. Dix, an engineer for The Pacific Telephone and Telegraph Company, estimates the cost of constructing the San Fernando Company's properties as of May 31, 1917 at \$125,454.32, and the cost of constructing the same less deterioration at \$103,862.72. The engineers for the Railroad Commission in the Commission's Exhibit Number 1 report the reproduction cost new of the properties as of May 31, 1917 at \$106,085.23 and the reproduction cost less depreciation at \$83,929.67. Mr. Dix testified that he used the term "deterioration" as being synonymous with the term "depreciation."

The difference between the estimated cost of constructing the properties, as reported by I. F. Dix, and the reproduction cost new reported by the Railroad Commission's engineers amounts to \$19,369.09. The difference between the estimated cost of constructing the properties less deterioration, as reported by I. F. Dix, and the reproduction cost less depreciation as reported by the Commission's engineers amounts to \$19,333.05. The testimony shows that the engineers for the company and for the Commission used practically the same inventory. The difference in the appraisal is due to different methods being pursued by the engineers. I. F. Dix appraised the properties on the basis of the cost experience of building other properties in Southern California. The engineers of the Railroad Commission, on the other hand, applied cost data used in the valuation of other comparable properties. Applying

these methods, for example, to the appraisal of the exchange pole lines, exchange aerial cable and exchange aerial wire, produced results as follows:-

<u>Item</u>	<u>I. F. Dix</u>	<u>Commission's Engineers</u>	<u>Difference</u>
Exchange Pole Lines	\$ 36,666.75	\$ 25,757.33	\$ 10,909.42
Exchange Aerial Cable	21,469.42	18,448.00	3,021.42
Exchange Aerial Wire	21,652.63	19,448.00	2,204.63
		Total Difference	\$ 16,135.47

The difference in the reproduction cost of the three foregoing items of property, as reported by I. F. Dix and the Commission's engineers accounts for \$16,135.47 of the \$19,369.09 difference in the reproduction cost of the entire properties as reported by I. F. Dix and the Commission's engineers.

Neither I. F. Dix nor the engineers for the Commission made any deductions from their appraisal for such property as may become useless to the purchasing company if the proposed consolidation is effected. In other words, neither of the engineers have considered the matter of duplicate property. J. T. Shaw representing the Pacific Company, takes the position that there is no duplicate property involved in this transaction in the sense that that term is ordinarily used. He called the Commission's attention to the fact that the Pacific Company is purchasing a lot in Glendale, will put up a new central office building and rebuild the entire territory now being served by the San Fernando Company as well as the territory being served by the Pacific Company through its Glendale and Burbank exchanges. The plans of the engineers of the Pacific Company call for the dismantling of the central offices of both companies. He further stated that the valuation prepared by I. F. Dix has no relationship whatever to the rates which the Pacific Company will apply to this territory so far as the property itself is concerned; that the amount of money which the Pacific Company is willing to pay for the

properties of the San Fernando Company is totally unrelated to what the people should pay in rates; that the Pacific Company has agreed to pay \$103,862.72 for the properties for the reason that it feels they are worth that much to it and that it is of the opinion that it can use the properties to good advantage in other parts of its system.

From Mr. Shaw's statement it appears to me that the Pacific Company regards the properties of the San Fernando Company in the nature of materials and supplies. In salvaging the properties all the labor costs, as reported by the engineers, is lost. It is safe to say that some of the property will be found to be in such a condition that it cannot be used elsewhere, while other property can only be used after relatively large amounts have been expended on it for repairs and alterations. In view of this situation, I believe that the Pacific Company should capitalize only such part of the purchase price as may represent the reasonable value of the property, considered from the point of view of materials and supplies in the store room. So that the Commission may be advised what use is being made of the property of the San Fernando Company, I believe that the Pacific Company should from time to time file with the Commission statements showing the progress made in reconstructing its telephone system in Glendale, Burbank and vicinity, the use, if any, that is being made of the properties acquired from the San Fernando Company, the removal of said properties, the cost of the removal and the reasonable

value of the properties removed in the Pacific Company's store-room. The order will so provide.

4. PURPOSE OF CONSOLIDATION AND METHOD:

It is obvious from the testimony that the purpose of this application and the end sought through this consolidation is the substitution of a single telephone service for the dual service now offered to residents of Glendale, Burbank, Tropic and vicinity. The Pacific Company in its Exhibit Number 12 referring to duplicate station reports the following:

Exchange	PACIFIC COMPANY				SAN FERNANDO COMPANY		
	Number of Subscribers	Total Stations	Dupli- cates	Revenue per Month	Total Stations	Dupli- cates	Revenue per Month
Burbank	35	44	40	\$103.20	43	40	\$107.61
Glendale	112	199	169	457.40	171	169	431.39

If the Commission authorizes the transfer of the properties, these duplicate stations will be eliminated.

In its Exhibit Number 5, the Pacific Company reports that in place of the present dual service, it will give a consolidated service. It will consolidate the properties in such manner as to give service between all subscribers of each consolidated exchange and give each subscriber access to the toll lines of The Pacific Telephone and

Telegraph Company and the United States Long Distance Telephone and Telegraph Company.

5.-- RATES:

The Pacific Company proposes to charge the subscribers of the San Fernando Company the same exchange rates now paid by the Pacific Company's subscribers served by its Burbank and Glendale exchanges and replace the present free toll service by collecting its regularly established toll rates. Table Number III shows the Pacific Company's present exchange rates as reported in its Exhibit Number 6.

TABLE NO. III.
PRESENT EXCHANGE RATES OF THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY.

Class of Service	B u r b a n k		G l e n d a l e	
	Wall	Desk	Wall	Desk
<u>Business:</u>				
* 1-party line	\$ 3.00	\$ 3.25	\$ 3.00	\$ 3.25
+ 2-party line	2.50	2.75	2.50	2.75
+ Suburban Line	2.50	2.75	2.50	2.75
Extension Set	1.00	1.00	1.00	1.00
<u>Residence:</u>				
* 1-party line	2.00	2.25	2.00	2.25
+ 2-party line	1.50	1.75	1.50	1.75
+ Suburban Line	2.50	2.75	2.50	2.75
Extension Set without bell	.50	.75	.50	.75
Extension Set with bell	.65	.75	.65	.75

*Includes 60 calls to Los Angeles, additional calls 2 cts. each.

+Includes 50 calls to Los Angeles, additional calls 2 cts. each.

A penalty of 25 cts. should be added to all bills not paid on or before the 15th day of the month.

Unlimited service from Burbank to Glendale and vice versa.

Table No. IV shows San Fernando Valley Home Telephone Company's exchange rates as reported in the Pacific Company's Exhibit Number 7.

TABLE NO. IV.
PRESENT EXCHANGE RATES OF SAN FERNANDO VALLEY HOME TELEPHONE CO.

Class of Service	Burbank		Glendale	
	Wall	Desk	Wall	Desk
<u>Business:</u>				
Individual Line	\$ 3.25	\$ 3.50	\$ 4.25	\$ 4.25
Party Line	2.75	3.00	2.75	3.00
Suburban Line	2.75	3.00	2.75	3.00
Extension Set	1.00	1.00	1.00	1.00
<u>Residence:</u>				
Individual Line	2.25	2.50	2.25	2.50
Party Line	1.75	2.00	1.75	2.00
Suburban Line	2.75	3.00	2.75	3.00
Extension Set	.50	.50	.50	.50

Unlimited service from Burbank to Glendale and Los Angeles for subscribers' stations.

Unlimited service from Glendale to Burbank and Los Angeles for subscribers' stations.

A discount of 25 cts. applies if bills are paid by the 15th of current month.

Table No. V shows the exchange rates which the Pacific Company proposes to put into effect as reported in its Exhibit Number 9.

TABLE NO. V.
PROPOSED EXCHANGE RATES OF THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY.

Class of Service	Burbank		Glendale	
	Wall	Desk	Wall	Desk
<u>Business:</u>				
Individual	\$ 3.00	\$ 3.25	\$ 3.00	\$ 3.25
2-party Line	2.50	2.75	2.50	2.75
Suburban	3.00	3.25	3.00	3.25
Extension	1.00	1.00	1.00	1.00
<u>Residence:</u>				
Individual	2.00	2.25	2.00	2.25
2-party line	1.75	2.00	1.75	2.00
4-party line	1.50	1.75	1.50	1.75
Suburban	2.50	2.75	2.50	2.75
Extensions without bell	.50	.75	.50	.75
Extensions with bell	.65	1.00	.65	1.00

The subscribers under the proposed exchange rates are subject to a 25 cts. penalty if their bills are not paid on or before the 15th of the current month. Assuming that the subscribers pay their bills promptly, the proposed net exchange rate schedule of the Pacific Company is equal to or lower than the existing net exchange rate of the San Fernando Company with the exception of the business suburban rates. This rate the Pacific Company proposes to increase from \$2.50 for wall and \$2.75 for desk to \$3.00 for wall and \$3.25 for desk telephones. In addition, as said, the Pacific

Company proposes to put into effect its regularly established toll rates between the Burbank and Glendale exchanges and Los Angeles and between Burbank and Glendale.

On December 3, 1917, the City of Glendale filed with the Railroad Commission a statement in which it declares that it has no objection to the transfer of the properties provided that such transfer does not result in any way in an increase in the rate of service or lessen the efficiency of the present service. The city objects to the introduction of a toll rate and maintains that this application relates solely to the merging of the two properties.

While it is true that this proceeding is concerned primarily with the sale and transfer of the San Fernando Company's properties, yet it does indirectly involve the matter of re-adjustment of rates. I do not believe that the Commission can entirely ignore the question of rates in this proceeding. Certainly, the Commission is interested to know what rates the purchasing company proposes to charge and how these rates compare with its present rates now charged at Glendale and Burbank and elsewhere under similar conditions.

In effect, the City of Glendale, if I understand its position correctly, asks that the present free toll service be continued after consolidation. In other words, the city is willing that these properties be consolidated and that its inhabitants be given the benefit of a consolidated telephone service resulting in the elimination of 169 duplicate stations, but at the same time asks that the present free service established under competitive conditions and at a time when this Commission had no jurisdiction over telephone rates, be continued. It would in my opinion be unwise and unjust to telephone subscribers in other communities for this Commission to accede to the request of the City of Glendale. The matter of re-adjustment of rates through the purchase and consolidation of properties has frequently been before the Commission. This is not the only instance where the Commission because of the

consolidation of properties has been faced with the problem of re-adjusting rates, established under competitive conditions offered as an inducement to the development of a utility business. Were the Commission, as said in a former decision, to adopt the principle that all promises made by companies and individuals or even municipalities in the past should be recognized by the Commission as morally binding, logical and just, rate-fixing and rate readjustment would immediately become an impossibility and we would have a condition whereby some consumers would be grossly discriminated against merely because utility companies had promised other consumers concessions or favorable rates. The elimination of free toll service does not put the telephone subscribers in Glendale at a disadvantage as compared with subscribers elsewhere. It simply means that they shall no longer enjoy the benefits of discriminatory favors. The state wide telephone rate case now pending before the Commission, affects toll rates only indirectly. Pending any readjustment of these rates, I believe that the Pacific Company should be permitted to eliminate free switching service between these communities.

Mr. W. F. McCann, representing the Lankershim Chamber of Commerce, protests against the increase in suburban exchange business rates from \$2.50 to \$3.00 per month for a wall telephone and from \$2.75 to \$3.25 per month for a desk telephone. He contends that the people of Lankershim are receiving no additional consideration for this increase. Instead of being offered a 2-party line service as subscribers in Glendale and Burbank, they are being offered a 10-party line suburban service. The proposed business and residence exchange rates of the Pacific Company are somewhat lower than the rates now charged by the San Fernando Company. Mr. McCann takes the position that an increase in the suburban business rates is at this time unjust and unwarranted. The

fact that the Lankershim people will have access to more telephones if the consolidation is effected means nothing to them, for the reason that their business all goes to Los Angeles. If the consolidation is consummated their telephone charges would be increased in two ways, - first, through the establishment of the toll rate; and second, through the increase in the suburban business exchange rates.

There is now pending before the Commission a proceeding involving The Pacific Telephone and Telegraph Company's local exchange rates throughout California. I believe that the present suburban rates applicable to telephone subscribers in Lankershim and vicinity should be continued in effect until such times as the Commission modifies the same, either as a result of the present pending rate proceeding or some other proceeding.

6.- REVENUES AND EXPENSES AFTER CONSOLIDATION:

Table Number VI and Number VII show the Pacific Company's estimated operating revenues, operating expenses and other deductions, after the first and second year of consolidation applicable only to local exchange business, as reported in its Exhibit Number 4. The revenues and expenses are based on the Pacific Company's proposed rates.

TABLE VI.
STATEMENT SHOWING ESTIMATED REVENUES AND EXPENSES
DURING FIRST YEAR AFTER CONSOLIDATION.

<u>I t e m</u>	Burbank	Glendale	Total
Operating Revenues	\$10,840.32	\$66,250.78	\$77,091.18
<u>Operating Expenses and Deductions:-</u>			
Ordinary Repairs	2,748.44	11,587.74	14,336.18
Station Renewals and Changes	652.81	4,957.58	5,610.39
Depreciation	3,684.79	30,740.96	34,425.75
Traffic Expense	4,880.61	19,738.69	24,619.30
Commercial Expense	2,684.18	9,199.17	11,883.35
General Expense	445.66	3,121.76	3,567.42
Uncollectible Bills	70.00	500.92	570.92
Taxes	477.12	4,295.47	4,772.59
Rent of Offices	378.52	160.38	538.90
Rent of Poles, Conduits, etc.	799.47	824.83	1,624.30
Total Operating Expenses and Deductions	<u>16,821.60</u>	<u>85,127.50</u>	<u>101,949.10</u>
Net Loss,	5,981.28	18,876.72	24,858.00

TABLE NO. VII.
STATEMENT SHOWING ESTIMATED REVENUES AND EXPENSES
DURING SECOND YEAR AFTER CONSOLIDATION

I t e m	Burbank	Glendale	Total
Operating Revenues	\$11,489.55	\$69,694.71	\$81,184.26
<u>Operating Expenses and Deductions:</u>			
Ordinary Repairs	2,922.94	12,174.41	15,097.35
Station Removals and Changes	694.25	5,208.58	5,902.83
Depreciation	3,918.70	32,298.61	36,217.31
Traffic Expense	4,994.97	20,738.03	25,733.00
Commercial Expense	2,854.60	9,664.91	12,519.51
General Expenses	473.96	3,279.81	3,753.77
Uncollectible Bills	74.19	526.97	601.16
Taxes	505.74	4,518.67	5,024.41
Rent for offices	379.70	168.50	548.20
Rent for poles, conduits, etc.	850.23	866.59	1,716.82
Total Operating Expenses and Deductions	<u>17,669.28</u>	<u>89,445.08</u>	<u>107,114.36</u>
Loss,.....	6,179.73	19,750.37	25,930.10

7.- FRANCHISES:

In Exhibit Number 15 the Pacific Company reports that it is operating in Burbank under City Ordinance Number 90; in the City of Glendale under City Ordinance Number 931 amended by Ordinance Number 206. The San Fernando Company reports that it is operating under Ordinance Number 108, new series, of Los Angeles County.

J.T. Shaw, representing the Pacific Company, stated that his company would continue to operate in Burbank, Glendale and vicinity under the most favorable franchises. I recommend that the Pacific Company within 60 days after the order herein advise the Commission under what franchise or franchises it will continue to operate in Burbank, Glendale and vicinity. In the event that it will operate under the franchise to be acquired from the San Fernando Company, it shall file with the Commission the usual stipulation agreeing that it will not at any time for rate-fixing or any other purpose claim a value for the rights and privileges granted under the San Fernando franchise in excess of the amount actually paid by the San Fernando Company for the grant of such franchise.

I herewith submit the following form of Order:

O R D E R.

SAN FERNANDO VALLEY HOME TELEPHONE COMPANY having filed the petition herein, as appears in the opinion which precedes this order, a public hearing having been held and this proceeding having been submitted and being ready for decision,

IT IS HEREBY ORDERED, that SAN FERNANDO VALLEY HOME TELEPHONE COMPANY be, and it is hereby, granted authority to sell and convey for not exceeding \$103,862.72 the properties described in its Exhibit Number 5 to THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY upon the following conditions and not otherwise:

- 1.-- The price at which the properties herein authorized to be sold to The Pacific Telephone and Telegraph Company shall never be urged by the purchasing company before this Commission or any other regulatory body in any rate-fixing or other proceeding as representing the value of the properties described in the San Fernando Company's Exhibit Number 5.

- 2.-- Within 60 days after the date of this order, The Pacific Telephone and Telegraph Company shall advise the Commission whether it will operate in Burbank, Glendale and vicinity under the franchise acquired from the San Fernando Company and referred to in the San Fernando Company's Exhibit Number 5. In the event that the Pacific Company will operate under said franchise, it shall file with the Commission within 60 days after the date of this order 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, a value for the franchises which are to be conveyed to it by the

San Fernando Valley Home Telephone Company in excess of such moneys as may have been paid by the San Fernando Valley Home Telephone Company for said franchises, which money shall be stated in said stipulation, and will 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.-- The authority herein granted shall not become effective until the Railroad Commission has approved the book-keeping entries relative to the transfer and purchase of the properties of the San Fernando Valley Home Telephone Company.
- 4.-- The Pacific Telephone and Telegraph Company shall file with the Railroad Commission monthly reports showing the progress made in reconstructing its telephone system in Burbank, Glendale and vicinity, such reports to include statements showing the use being made of the San Fernando Company's properties, a description of the property removed, if any, the cost of removal and the value of the property removed.
- 5.-- The Pacific Telephone and Telegraph Company may put into effect the proposed exchange rates set forth in Exhibit Number 9, with the exception that the rates now being charged for suburban business service in Lankershim, Glendale, Burbank and vicinity shall continue in effect until modified by the order of this Commission.
- 6.-- Within 30 days after the transfer of the properties herein

authorized, The Pacific Telephone and Telegraph Company shall file with the Railroad Commission a certified copy of the instrument of conveyance whereby the properties of the San Fernando Valley Home Telephone Company are sold and transferred to The Pacific Telephone and Telegraph Company.

7.-- The authority herein granted shall apply only to such property as may be sold and transferred on or before October 1, 1918.

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 16th day of ~~April~~, 1918.

Max Thelen

Alex Gordon

Edwin O. Edgerton

Frank P. Devlin

Commissioners.