

ORIGINAL
Decision No. 721

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application :
of CLOVERDALE LIGHT & POWER COM- :
PANY to sell its property to Cal- :
ifornia Telephone & Light Company :
and of CALIFORNIA TELEPHONE & : Application No. 498.
LIGHT COMPANY to buy the same; to :
mortgage its property; to issue :
stock; and to issue \$350,000.00 of :
bonds. :

Ambrose Gherini, for Cloverdale Light & Power
Company;
Charles P. Cutten and William B. Bosley, for
California Telephone & Light Company.

LOVELAND, Commissioner.

O P I N I O N

This application may be summarized as follows:-

(1) Application of Cloverdale Light & Power Company
to sell its property to California Telephone & Light Company for
\$75,000.00 in cash, 500 shares of preferred stock and 750 shares
of common stock of California Telephone & Light Company.

(2) Application of California Telephone & Light Com-
pany to buy the properties of Cloverdale Light & Power Company
and to pay therefor \$75,000.00 in cash, 500 shares of its prefer-
red stock and 750 shares of its common stock.

(3) Application of California Telephone & Light Com-
pany to issue 500 shares of its preferred stock of the par value
of \$100.00 per share and 750 shares of its common stock of the
par value of \$100.00 per share.

(4) Application of California Telephone & Light Company
to mortgage its property to Mercantile Trust Company of San Fran-
cisco as trustee to secure an authorized bond issue of \$5,000,000.

(5) Application of California Telephone & Light Company
to issue \$350,000.00 of its 6% thirty year bonds and to use the
proceeds in retiring existing indebtedness, to make additions to
its property and to provide \$75,000.00 to be applied on the pur-

chase of the properties of the Cloverdale Light & Power Company.

Cloverdale Light & Power Company was incorporated in 1902. It owns and operates an electric distribution system located in Sonoma county extending from Windsor on the south to Preston on the north. Current is purchased from the Snow Mountain Water & Power Company at Cloverdale. The company owns water rights on Big Sulphur Creek and also an uncompleted steam plant.

California Telephone & Light Company was incorporated on November 23, 1911 through the consolidation of the following companies: Sonoma Valley Light & Power Company, Russian River Light & Power Company, Clear Lake Consolidated Telephone & Telegraph Company, Northwestern Electric Company, and Healdsburg Telephone Company. It distributes and sells electricity for light and power and owns and operates a telephone system. Current is purchased from the Pacific Gas & Electric Company at Sonoma and Sebastopol and from the Snow Mountain Water & Power Company at Ukiah.

California Telephone & Light Company operates in Sonoma, Mendocino, Napa and Lake counties. It distributes electricity for light and power over 176 miles of line and in January of this year was serving 1,017 consumers, or an average of less than 6 consumers per mile of pole line. It operates 464 miles of telephone lines and served on January 1 of this year 1,419 telephone subscribers, or an average of approximately 3 subscribers per mile. It maintains telephone exchanges in the important centers of the territory it serves. A toll line service is maintained connecting with local exchanges and with the Pacific Telephone & Telegraph Company's exchanges in Cloverdale, Santa Rosa, Sebastopol and Ukiah.

The territory served by the California Telephone & Light Company is, for the most part, sparsely settled and includes no large cities. This territory is divided by the section served by

the Cloverdale Light & Power Company. The Cloverdale Light & Power Company owns 48 miles of pole lines and serves 448 consumers and 61 street lamps.

Cloverdale Light & Power Company submits a statement showing an authorized issue of 10,000 shares of capital stock of the par value of \$10.00 each, all of which are outstanding. Its indebtedness consists of a note in the sum of \$18,000.00 and sundry bills payable less than \$1,000.00. It submits a statement of earnings for the calendar year 1912 as follows:-

Sales of current.....	\$23,843.17
Profit on merchandise sales.....	<u>253.80</u>
Gross earnings.....	\$24,096.97
Operating expenses.....	\$12,821.10
Net income.....	\$11,275.87
Interest.....	<u>1,183.66</u>
Balance.....	\$10,092.21

This represents the net profit for the year before charging off depreciation.

California Telephone & Light Company submits a statement showing authorized and outstanding stock as follows:-

	<u>Authorized</u>	<u>Issued</u>
6% cumulative preferred stock.....	\$4,000,000.00	\$250,000.00
Common stock.....	\$6,000,000.00	\$766,000.00

All stock is of the par value of \$100.00 per share.

In connection with its application, California Telephone & Light Company presents a statement of its indebtedness as follows:-

Mortgage notes due March 21, 1913 but which may be extended for the period of 1 year....	\$150,000.00
Amount carried forward.....	<u>\$150,000.00</u>

Amount brought forward.....	\$150,000.00
Unsecured notes payable.....	40,000.00
Sundry notes payable.....	2,202.79
Accounts payable.....	<u>36,124.30</u>
Total indebtedness.....	\$228,327.09

California Telephone & Light Company submits a statement of earnings for the year 1912, a portion of which is based upon estimate, as follows:-

Gross earnings.....	\$66,388.85
Operating expenses.....	<u>37,804.04</u>
Net earnings.....	\$28,584.81
Interest.....	<u>9,733.84</u>
Balance.....	\$18,850.97

This represents the balance for the year 1912 before deducting for depreciation.

It also submits a statement showing a surplus from operation during the period from March 19, 1912 to February 28, 1913 of \$17,788.89.

It is now proposed by California Telephone & Light Company and Cloverdale Light & Power Company that the former acquire all of the property of the latter. The transfer is urged upon the ground (1) that such a consolidation would result in economies and provide for a uniform development in the territory involved without duplication of investment; (2) that Cloverdale Light & Power Company is not disposed to make an aggressive campaign for business while the California Telephone & Light Company is actively engaged in extending its operations and is prepared to expend additional sums for the purpose of serving more efficiently the section in which Cloverdale Light & Power Company now operates; (3) that it is the purpose of the California Telephone & Light Company to expend, during the next year, if authority be given, from

\$40,000.00 to \$50,000.00 in the development of the territory now occupied by Cloverdale Light & Power Company; (4) that extensions and improvements are urgently needed in the territory occupied by Cloverdale Light & Power Company and that the present owners of the Cloverdale Light & Power Company are engaged in other business pursuits and are not desirous of greatly increasing their investment in these properties; (5) that through the consolidation, the California Telephone & Light Company will greatly increase its credit and be able to borrow money on more advantageous terms.

While it may well be that such a consolidation would prove to be beneficial to both utilities and to the public as well, it is obvious that if the consolidation were to be made on terms unduly burdensome it would be better for the rate payers that no such consolidation should be made. We must look, therefore, to the terms upon which it is proposed that California Telephone & Light Company shall acquire the properties of Cloverdale Light & Power Company.

It is proposed that California Telephone & Light Company shall give in exchange for these properties \$75,000.00 in cash, 500 shares of its 6% cumulative preferred stock and 750 shares of its common stock. Cloverdale Light & Power Company is now capitalized at \$100,000.00 and we have before us a proposal in effect to increase this capitalization to \$200,000.00.

While it is in evidence that California Telephone & Light Company will develop the territory now served by the Cloverdale Light & Power Company to a greater extent than has heretofore been attempted and that this, naturally, will redound to the advantage of the public generally, it should also be made clear that this advantage will not be more than offset by corresponding obligations which must be imposed to provide interest and dividends on the higher capitalization.

It has been urged that the properties of Cloverdale Light & Power Company are of such value that their capitalization at \$200,000.00 is not excessive. In support of this, there was offered

in evidence a statement that there had been invested by the present owners in the properties of Cloverdale Light & Power Company the sum of \$132,981.00. It was also urged that an extra element of value in the form of "going concern" should be recognized in the sum of \$22,186.72. This means a total value of \$155,167.72 and in addition to this a value of \$40,000.00 to \$50,000.00 was placed by the applicants herein upon certain water rights owned by Cloverdale Light & Power Company on Big Sulphur Creek.

I am frank to say that I am not at all impressed with this endeavor of the applicants herein to show such value as would justify a capitalization of \$200,000.00 upon these properties. In the first place, I find that this investment cost of \$132,981.00 includes certain abandoned property, including a flume which has been totally destroyed and a dam which has not been used for several years. The flume and the dam appear in the investment cost figures at \$47,960.08. Testimony was offered to the effect that the flume, which has since been destroyed, cost approximately \$23,500.00. I am inclined to believe that the investment cost figures should be reduced at least by the difference between the cost of the dam and the flume, namely: \$47,960.08 and the present value of the dam. It is in evidence that the present value of the dam is entirely problematical.

I cannot agree with the method employed by the applicants herein to find a going concern value in the sum of \$22,186.72. This figure was reached by computing the interest on the money invested in the properties at 8% per annum from 1903 to 1912 and deducting therefrom the accumulated surplus and the amount paid out in dividends. The resultant figure is offered as the cost of development. As a matter of fact, it merely represents the amount by which Cloverdale Light & Power Company failed, over a period of ten years, to earn 8% upon the money invested in its property. While there is undoubtedly some merit in the contention that values must sometimes be recognized in the cost of business development, it is certainly manifest

that to authorize a corporation to capitalize its losses over a period of 10 years would lead inevitably to conclusions that could not be reconciled with the principles of sound finance.

I am unable also to find that the applicants have offered sufficient evidence upon which to base a value of the water rights on Big Sulphur Creek at \$40,000.00 or \$50,000.00. The witness who testified to a value of \$40,000.00 to \$50,000.00 for these water rights stated that it was merely his estimate, and that the water had not been measured.

The applicants have neglected in their estimates of value to provide for any depreciation, although it appears clearly in evidence that such depreciation has taken place.

Altogether, therefore, I find the valuation approximating \$200,000.00 as built up by the applicants herein, as heretofore outlined, one that I cannot recommend.

Applicants submitted another form of value based upon the appraisal by expert engineers. These engineers reported a reproduction value, for the properties of Cloverdale Light & Power Company, in the sum of approximately \$93,000.00. This figure represents the appraisal of the value of the properties reproduced new and makes no allowance for depreciation. It appears also that this estimate is \$10,000.00 in excess of the original cost of the properties thus appraised. The estimate of \$93,000.00 included no provision for an uncompleted steam plant, a dam, a reservoir site and the water rights on Big Sulphur Creek. While sufficient evidence has not been presented to the Commission to enable it to form an exact measure of the value of this water right, the reservoir site, uncompleted steam plant and dam, I am of the opinion that it is at least clear that the total will not be of a value upon which I can recommend an authorization of stocks and bonds to the amount of \$200,000.00.

I am satisfied that the applicants herein are justified in urging upon the Commission the recognition of value for the un-

completed steam plant, dam, reservoir site and water rights on Big Sulphur Creek. While the evidence is not sufficient to enable me to fix a definite value for these properties, I shall, nevertheless, give consideration to these elements for the purposes of the present application in reaching a final determination in the matters herein involved. This determination will not, therefore, provide a definite finding as to value.

In reaching a conclusion as to the amount of securities, which I believe may be issued against these properties with fairness to the utilities involved and to the public, I shall also take into account the general financial condition of the California Telephone & Light Company, which, as the purchasing corporation, will assume all obligations to be incurred.

A physical valuation made by expert engineers of the properties of California Telephone & Light Company was submitted to the Commission showing a total of \$487,094.00. The liabilities of this company consist of certain notes and accounts payable, as previously indicated, in the sum of \$228,327.09. Although certain deductions probably should be made from the physical valuation of \$487,094.00 to allow for depreciation, and although the figures have not been subjected to check by the engineering department of this Commission, I am, nevertheless, of the opinion that the value of the property of California Telephone & Light Company is largely in excess of its liabilities and that it may readily be permitted to incur further obligations in the form of bonds in taking over the properties of Cloverdale Light & Power Company. The additional obligation thus incurred will be more than offset by the value of the property acquired.

At the same time, the measure of this additional mortgage obligation must be gauged by the other securities to be issued against the property, especially in view of the fact that, among such securities which it is proposed to issue, is \$50,000.00 of 6%

cumulative preferred stock.

I am compelled to conclude that the applicants have not presented sufficient evidence as to the value of the properties of Cloverdale Light & Power Company to predicate thereupon an issue of \$75,000.00 in bonds, \$50,000.00 in 6% cumulative preferred stock and \$75,000.00 in common stock. I am persuaded further to this belief for the reason that there is at the present time outstanding \$250,000.00 of 6% cumulative preferred stock and \$766,000.00 of common stock of California Telephone & Light Company.

I believe from an analysis of the evidence that a conservative capitalization for the properties of Cloverdale Light & Power Company should not exceed its present capitalization of \$100,000.00. However, in view of the fact that the values cannot at this time be definitely established, and that the properties, as at present capitalized, carry in addition a note indebtedness of \$18,000.00; and in view also of the fact that California Telephone & Light Company, the purchasing corporation, has property largely in excess of its indebtedness, I shall recommend that, for the purpose of the purchase now under consideration, a capitalization be authorized not to exceed \$125,000.00; but I shall, at the same time, couple this with the further recommendation that this capitalization either be gradually reduced to a basis not exceeding \$100,000.00 or that additional moneys be put into the property from income within the next 10 years so as to increase the investment by \$25,000.00. To that end, I shall recommend that the sale of these properties be authorized and that California Telephone & Light Company be empowered to give therefor, to the stockholders of Cloverdale Light & Power Company, \$75,000.00 in cash and \$50,000.00 of its preferred stock.

I shall recommend that that portion of the application wherein California Telephone & Light Company asks for authority to issue \$75,000.00 of its common stock to the stockholders of the Cloverdale Light & Power Company, in part payment for these proper-

tions, be denied.

It is in evidence that the \$75,000.00 in cash which California Telephone & Light Company intends to pay to the stockholders of Cloverdale Light & Power Company is to be raised by issuing bonds. The further recommendation will be made that, in view of this authorization, California Telephone & Light Company shall, each year, for a period of 10 years, invest from income \$2,500.00 in new property or shall retire from income in a period of 10 years bonds of the face value of \$25,000.00. Necessarily, these requirements should be in addition to such conditions as may be imposed in the mortgage of California Telephone & Light Company to Mercantile Trust Company of San Francisco or as may hereafter be imposed by this Commission in the form of a proper depreciation fund.

I am the more persuaded to this view for the reason that the stockholders of California Telephone & Light Company can, if they desire to carry out the terms of their agreement with Cloverdale Light & Power Company, transfer from their own holdings of common stock the necessary 750 shares of such common stock as to complete the transaction on the terms laid down in the contract of purchase.

I shall now pass to the remaining two features of this application: the request of California Telephone & Light Company that it be given authority to mortgage its property to Mercantile Trust Company of San Francisco, as trustee, to secure an authorized bond issue of \$5,000,000.00 and that it be given authority also to issue \$350,000.00 of its 6% thirty year bonds.

The applicant herein, California Telephone & Light Company, has filed with this Commission a copy of its proposed mortgage and deed of trust to Mercantile Trust Company of San Francisco, as trustee. This mortgage provides for an original issue of \$350,000.00 of bonds, evidently contemplating the purposes named in the application herein. The remaining bonds may, under the terms of this

mortgage, be issued up to 90% of the cost of new construction and then only when the net earnings for 12 months, ending one month previous, shall have been $1\frac{1}{2}$ times the interest on outstanding bonds, plus $1\frac{1}{2}$ times the interest of the bonds proposed to be issued.

A sinking fund is provided of $1\frac{1}{2}$ % per year of outstanding bonds beginning 1916 and ending 1925 and 2% of outstanding bonds in each year thereafter. One-half of the sinking fund payments per year may be diverted to additions and betterments. It is clearly set forth in the mortgage that bonds may be used only for additions and betterments and not for operating expenses. Bonds are callable at 107 $\frac{1}{2}$ %.

I find that the mortgage is a proper one and shall recommend that authority be given for its execution.

It is proposed by California Telephone & Light Company to issue at this time \$350,000.00 of the thirty year 6% bonds authorized under this proposed mortgage. A contract of sale has been made under which these bonds shall net the company 94% of their face value. It is proposed to use the proceeds from the sale of the bonds for the discharge of the following obligations:-

Thirty notes of the par value of \$5,000.00 each, bearing interest at the rate of 6%, dated March 21, 1912, and payable March 21, 1913, with a year's extension privilege, issued under a mortgage to Mercantile Trust Company of San Francisco, as trustee.....\$150,000.00

Note dated October 21, 1912 to Mercantile National Bank of San Francisco, 6% interest..... 10,000.00

Note of December 16, 1912 to Mercantile National Bank of San Francisco, interest at 6%..... 10,000.00

~~X~~ Amount carried forward.....\$170,000.00

f Amount brought forward.....	\$170,000.00
Note of January 23, 1913 to Mercan- tile National Bank of San Francisco, interest at 6%.....	5,000.00
Note of February 15, 1913 to Mercan- tile National Bank of San Francisco, interest at 6%.....	5,000.00
Note of March 22, 1912 to C. T. Ryland, interest at 6%.....	10,000.00
Sundry notes payable.....	2,202.79
Miscellaneous accounts payable.....	<u>36,124.30</u>
Total.....	\$228,327.09

To reimburse the treasury for money
expended out of income for additions and better-
ments.....

	\$ 17,788.89
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To be applied on purchase of Clover-
dale Light & Power Company properties.....

	<u>75,000.00</u>
Total.....	\$321,115.98

It appears from the evidence and from a check by the audit-
ing department of this Commission that the obligations above noted
in the sum of \$228,327.09 were duly incurred for items which may prop-
erly be capitalized under the terms of the Public Utilities Act. It
appears further that the company has expended from income, for addi-
tions and betterments, the sum of \$17,788.89, as stated, and, as
previously stated, I shall recommend that authority be given to Cal-
ifornia Telephone & Light Company to use the sum of \$75,000.00, re-
ceived from the sale of bonds, for the purpose of paying in part
the purchase price of the properties of Cloverdale Light & Power
Company.

If the bonds of California Telephone & Light Company
 sell at 94, as indicated, they will yield.....\$329,000.00,
 and if used as above indicated in the sum
 of..... 321,115.98.
 there will be left.....\$ 7,884.02

The applicant herein, California Telephone & Light Com-
 pany, has submitted a program of new construction covering all of
 its territory and the Cloverdale district in the sum of \$265,900.00.
 It will be its purpose to expend the balance of \$7,884.02 upon some
 item in its program of new construction as placed before this Com-
 mission in Exhibit "J" to the total amount of \$265,900.00.

In connection with its application, California Telephone
 & Light Company has submitted a statement of organization expenses
 to the total amount of \$13,863.09. In this list appear certain items
 amounting to, approximately, \$9,000.00, which I regard as more prop-
 erly chargeable to operating expenses than against capital invest-
 ment. I shall, therefore, recommend, as a condition in the Order
 in this application, that no part of the money to be received from
 the sale of the bonds herein authorized shall be applied upon the
 payment of any of these organization expenses unless such expenditure
 shall have been specifically authorized in a Supplemental Order of
 this Commission.

It also appears in evidence that the miscellaneous notes
 payable, to the amount of \$2,202.79, have been paid since the filing
 of this application and I shall, therefore, authorize the diversion
 of the money to be received from the sale of the bonds intended to
 pay these obligations to the company's treasury for reimbursement.

Obviously, public convenience cannot be served by the
 transfer of these properties from Cloverdale Light & Power Company
 to California Telephone & Light Company unless the public is given
 at least equal service at rates at least equal to those now in ef-

fect. It was stated on behalf of California Telephone & Light Company that there was no present intention to raise the rates, but I believe that it should be inserted as a condition to this transfer that no such increase should be made.

I find that the purposes for which California Telephone & Light Company asks for authority to issue its stock and bonds are not, in whole or in part, chargeable to operating expenses or to income.

I find, further that, with such conditions as I have suggested, the public interest will be served by the transfer of these properties from Cloverdale Light & Power Company to California Telephone & Light Company.

I recommend that the application be granted, excepting as to that portion in which California Telephone & Light Company asks for authority to issue 750 shares of its common stock to Cloverdale Light & Power Company as part payment for its properties, and as to that portion I recommend a denial.

I, therefore, submit the following form of Order:-

ORDER

Application having been made to this Commission by Cloverdale Light & Power Company for authority to sell its property, described in Exhibit "C" attached to the application herein, to California Telephone & Light Company, and by California Telephone & Light Company to buy the same; and by California Telephone & Light Company to execute a mortgage of its property to Mercantile Trust Company of San Francisco, as trustee, dated April 1, 1913, to secure an authorized issue of 6% first mortgage bonds maturing April 1, 1943, a copy of which is on file with this Commission marked Exhibit "D" and to which reference is hereby made; to issue 500 shares of its 6% cumulative preferred stock of the par value of \$100.00 per share, and 750 shares of its common stock of the par

value of \$100.00 per share; and to issue \$350,000.00 of its first mortgage 6% thirty year bonds under its proposed mortgage to Mercantile Trust Company of San Francisco, as trustee, as above mentioned;

And a hearing having been held, and it appearing that the public interest will be served by the sale of the properties of Cloverdale Light & Power Company to California Telephone & Light Company, and that the purposes for which California Telephone & Light Company proposes to issue said 500 shares of 6% cumulative preferred stock and said \$350,000.00 of said 6% thirty year first mortgage bonds are not, in whole or in part, chargeable to operating expenses or to income;

IT IS HEREBY ORDERED: That Cloverdale Light & Power Company be given authority, and it is hereby given authority, to sell its properties, described in Exhibit "C" attached to the application herein, to California Telephone & Light Company, and California Telephone & Light Company is hereby authorized to purchase the same.

IT IS FURTHER ORDERED: That California Telephone & Light Company be given authority, and it is hereby given authority, to execute a mortgage of its properties of Mercantile Trust Company of San Francisco, as trustee, dated April, 1, 1913, to secure an issue of \$5,000,000.00 of first mortgage 6% bonds maturing April 1, 1943, said mortgage to be in a form substantially like the copy of said mortgage filed with this Commission in the application herein and marked Exhibit "D".

AND IT IS FURTHER ORDERED: That California Telephone & Light Company be given authority to issue 500 shares of its 6% cumulative preferred stock of the par value of \$100.00 per share and to issue \$350,000.00 of its 6% thirty year bonds under the terms and conditions prescribed in said mortgage and deed of trust to Mercantile Trust Company of San Francisco, as trustee.

IT IS FURTHER ORDERED: That the authority hereby given to Cloverdale Light & Power Company to sell its property and of

California Telephone & Light Company to purchase the same is given upon the condition that said California Telephone & Light Company shall not increase any of the rates now established in the territory now occupied by Cloverdale Light & Power Company.

IT IS FURTHER ORDERED: That the authority hereby given to California Telephone & Light Company to issue said 500 shares of 6% cumulative preferred stock and \$350,000.00 par value of said 6% thirty year bonds is given upon the following conditions and not otherwise:-

(I) Said stock shall be issued to Cloverdale Light & Power Company as part payment for the purchase of the properties of said Cloverdale Light & Power Company.

(II) The said \$350,000.00 of bonds shall be sold so as to net California Telephone & Light Company not less than 94% of their face value plus accrued interest.

(III) The proceeds from the sale of said \$350,000.00 of bonds shall be used for the following purposes and not otherwise:-

(a) To discharge the following obligations:-

1. Thirty notes of the par value of \$5,000.00 each, bearing interest at the rate of 6%, dated March 21, 1912 and payable March 21, 1913, issued under a mortgage to Mercantile Trust Company of San Francisco, as trustee.....	\$150,000.00
2. Note dated October 21, 1912 to Mercantile National Bank of San Francisco, 6% interest.....	10,000.00
3. Note of December 16, 1912 to Mercantile National Bank of San Francisco, interest at 6%.....	<u>10,000.00</u>
Amount carried forward.....	\$170,000.00

Amount brought forward.....\$170,000.00

4. Note of January 23, 1913
to Mercantile National Bank of San Francisco,
interest at 6%..... 5,000.00

5. Note of February 15, 1913
to Mercantile National Bank of San Francisco,
interest at 6%..... 5,000.00

6. Note of March 22, 1912 to
C. T. Ryland, interest at 6%..... 10,000.00

Total.....\$190,000.00

7. Miscellaneous accounts pay-
able.....\$ 36,124.30

(b) To reimburse the treasury for
money expended out of income for additions and
betterments.....\$ 20,000.00

(c) To be applied on purchase of
properties of Cloverdale Light & Power Company....\$ 75,000.00
\$321,124.30

(d) Such balance as may be left thereafter shall be
applied upon new construction or additions and betterments to the
properties of California Telephone & Light Company and specific-
ly for any among the items appearing in Exhibit "J" filed in con-
nection with the application herein.

(IV) California Telephone & Light Company shall set
aside from income each year, during the next 10 years, beginning
with the calendar year 1914, the sum of \$2,500.00, in addition to
such sums as it may be required to set aside for sinking fund or
depreciation under its mortgage and deed of trust and in addition
to such sum as the Commission may hereafter require it to set aside
for depreciation. Said sum of \$2,500.00 thus set aside annually

shall be used either for the retirement of applicant's bonds to the amount of \$25,000.00 before 1925, in the manner provided under its mortgage for sinking fund purposes or shall be invested annually in additions and betterments to its properties; and if said money is invested in additions and betterments to its properties it shall not be urged as a basis upon which to apply for an issue of either stock, bonds, notes or other evidences of indebtedness.

(V) California Telephone & Light Company shall report each year to this Commission the use to which it has devoted said sum of \$2,500.00 thus set aside annually from income.

(VI) No portion of the money received from the sale of said bonds in the sum of \$350,000.00 shall be used by California Telephone & Light Company for paying "organization expenses", as filed with this Commission as Exhibit "I" in the application herein, until it shall have received a Supplemental Order from this Commission authorizing the use of said money for the payment of any of said items listed among such organization expenses.

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

(VIII) The authority hereby given to Cloverdale Light & Power Company to sell its property to California Telephone & Light Company, and of California Telephone & Light Company to purchase the same, and the authority hereby given to California

Telephone & Light Company to issue stock and bonds, shall apply only to such property as may be transferred from Cloverdale Light & Power Company to California Telephone & Light Company and to such stock or bonds as may be issued on or prior to December 31, 1913.

(IX) The authority hereby given to California Telephone & Light Company to issue said stock and said bonds is contingent upon the payment of the fee prescribed by the Public Utilities Act.

(X) Neither this Commission nor any other public authority shall be bound by the value of the property set out in the contract between Cloverdale Light & Power Company and California Telephone & Light Company, nor by any finding of value of the properties of Cloverdale Light & Power Company and California Telephone & Light Company which may appear herein.

IT IS HEREBY ORDERED: That the application of California Telephone & Light Company to issue 750 shares of its common stock of the par value of \$100.00 per share to Cloverdale Light & Power Company in part payment for the properties of said Cloverdale Light & Power Company be, and it is hereby, denied.

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 17th day of June, 1913.

John W. Eschbacher
H. H. ...
...
Edwin O. Edgerton
Commissioners.