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ORIGINAL

Decision No. 8695.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

* * *

In the Matter of the Application of)
THE PACIFIC TELEPHONE AND TELEGRAPH)
COMPANY for authority to sell property)
and franchises and to lease property to)
SANTA MONICA BAY HOME TELEPHONE COMPANY)
and to withdraw from the telephone busi-)
ness, and of SANTA MONICA BAY HOME TELE-)
PHONE COMPANY for authority to acquire)
property and franchises and to lease)
property from THE PACIFIC TELEPHONE AND)
TELEGRAPH COMPANY and to issue bonds.)

Application No. 3821.

In the Matter of the Application of the)
SANTA MONICA BAY HOME TELEPHONE COMPANY)
to issue certain of its common capital)
stock for a past consideration already)
received, and sell certain of its pre-)
ferred stock.)

Application No. 5027.

Pillsbury, Madison & Sutro; James T. Shaw and Arthur Wright
for The Pacific Telephone and Telegraph Company;
Dexter and Ellis; and L.C. Torrence, for Santa Monica Bay Home
Telephone Company;
Victor R. McLucas for City of Santa Monica;
R.M. Blodgett for City of Venice.

BY THE COMMISSION.

FIRST SUPPLEMENTAL OPINION

On July 26, 1916, the Railroad Commission made an order authorizing The Pacific Telephone and Telegraph Company to sell to and exchange with the Santa Monica Bay Home Telephone Company all that certain real and personal property and franchises in the cities of Santa Monica and Venice and the territory tributary thereto, all as more particularly described in Exhibit "A" and Exhibit No. "2" on file herein, and pending the consolidation of the properties authorized

The Pacific Telephone and Telegraph Company to lease certain properties to the Santa Monica Bay Home Telephone Company. The authority was granted subject, among others, to the condition that before said sale or lease is finally consummated, the Commission by supplemental order shall fix the terms and conditions of such sale and lease and fix the amount of bonds which may be issued by Santa Monica Bay Home Telephone Company and the terms and conditions of such issue.

The properties of The Pacific Telephone and Telegraph Company were delivered and transferred to the Santa Monica Bay Home Telephone Company on April 1, 1919. The consolidation of the properties referred to in this application has since been completed, but no bonds have been issued by the Santa Monica Bay Home Telephone Company in payment for the properties.

The Pacific Telephone and Telegraph Company agreed to sell certain of its properties to the Santa Monica Bay Home Telephone Company for \$177,200.00 and to accept in payment for such properties 5 per cent bonds of the Santa Monica Company at 95 and accrued interest. The Pacific Company also agreed to advance to the Santa Monica Company \$60,000.00, or such other amount, ^{furnish it} or with such materials and supplies, as may be necessary to enable Santa Monica Bay Home Telephone Company to consolidate the properties, and to accept in liquidation of such advances 5 per cent bonds of the Santa Monica Company at 83-1/3. A report submitted to the Commission shows that The Pacific Company has filed with the Santa Monica Company a bill for \$84,828.30. A few adjustments may be made in the bill which may reduce it to approximately \$80,000.00. The Santa Monica Company proposes to issue about \$197,000.00 of bonds in payment for properties purchased from The Pacific Company and about \$100,000.00 to pay or refund advances, making a total of \$300,000.00.

Santa Monica Bay Home Telephone Company has at present \$175,500.00 of preferred stock and no common stock outstanding. In 1907, it acquired the properties of Home Telephone and Telegraph

Company of Santa Monica and Ocean Beach, and agreed to pay in part for such properties \$250,000.00 in common stock. None of this stock was ever issued. On July 17, 1907, the Board of Directors of Santa Monica Bay Home Telephone Company approved a resolution to the effect that the company should at no time sell or otherwise dispose of bonds in excess of its issued capital stock. In view of the fact that the company now has outstanding only \$175,500.00 of stock and has also outstanding \$181,000.00 of bonds, the Title Insurance and Trust Company, trustee under Santa Monica Bay Home Telephone Company's mortgage, refuses to certify the bonds which the company intends to deliver to The Pacific Telephone and Telegraph Company until the Santa Monica Company has issued additional stock. The company, therefore, in Application No. 5027, asks permission to issue the \$250,000.00 of common stock which it in 1907 agreed to issue in part payment for the properties of Home Telephone and Telegraph Company of Santa Monica and Ocean Park, and further asks permission to issue \$31,500.00 of preferred stock which it has re-acquired on account of the non-payment of assessments by the holders thereof. The company agrees to deposit with a bank or trust company the \$250,000.00 of common stock, if authorized by the Commission, under an escrow agreement, the terms of which will not permit the disposition of the stock in any manner without an order from the Railroad Commission.

The engineering department of the Commission has made an investigation of the properties of the Santa Monica Bay Home Telephone Company as the same existed on September 30, 1920, and estimates the historical/^{reproduction} cost new of the properties at \$502,409.00 and the depreciated reproduction cost of the consolidated properties at \$392,785.00. The company has not accepted these figures as correctly setting forth the cost of the properties and calls the Commission's attention to the fact that the net cost of additions and betterments since December 31, 1917, have been \$39,539.00 instead of \$3,556.00 included in the Commission's engineers' report. The company also

urges that the present value of the properties is greatly in excess of the estimated historical reproduction cost.

As said above, Santa Monica Bay Home Telephone Company has \$175,500.00 of stock outstanding, which if added to the \$250,000.00 which may be issued under the authority herein granted, makes a total of \$425,500.00. The company has now \$181,000.00 of bonds outstanding, and under the resolution of its Board of Directors, the trustee can certify \$244,500.00 of additional bonds, if the \$250,000.00 of stock is issued. These bonds, together with the \$21,000.00 in the company's treasury and included in the \$181,000.00 heretofore mentioned, will be delivered to The Pacific Telephone and Telegraph Company in part payment for properties acquired from that company. After this is done, Santa Monica Bay Home Telephone Company will remain indebted to The Pacific Telephone and Telegraph Company in the amount of approximately \$32,000.00.

In Application No. 5027, as originally filed, Santa Monica Bay Home Telephone Company asked permission to issue \$31,500.00 of 6 per cent preferred stock at \$5.00 per share. Exception was taken by the Commission to the issue of stock at this price. It has been finally agreed between applicants that The Pacific Telephone and Telegraph Company would accept the \$31,500.00 of stock in payment for the balance of the indebtedness not paid through the issue of bonds.

FIRST SUPPLEMENTAL ORDER

Further consideration having been given to the above entitled applications, public hearings having been held and the Commission being of the opinion that the money, property or labor to be procured through the issue of the stock and bonds herein authorized is reasonable required by SANTA MONICA BAY HOME TELEPHONE COMPANY and that the expenditures are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED, that SANTA MONICA BAY HOME TELEPHONE COMPANY be, and it is hereby, authorized to issue \$250,000.00 of its common capital stock as part payment for the properties of Home Telephone and Telegraph Company of Santa Monica and Ocean Park, provided that such stock be deposited with a bank or trust company under an escrow agreement wherein it is agreed that the stock will not be disposed of in any manner whatsoever except as authorized by the Railroad Commission, and a copy of such escrow agreement filed with the Commission.

IT IS HEREBY FURTHER ORDERED, that SANTA MONICA BAY HOME TELEPHONE COMPANY be, and it is hereby, authorized to issue and sell to The Pacific Telephone and Telegraph Company \$31,500.00 of its 6 per cent preferred stock for the purpose of paying or refunding the advances against which Santa Monica Bay Home Telephone Company is not authorized to issue bonds, and which are referred to in the foregoing opinion. The Pacific Telephone and Telegraph Company is hereby permitted to acquire and hold said \$31,500.00 of 6 per cent preferred stock, subject to the terms and conditions of this Order.

IT IS HEREBY FURTHER ORDERED, that SANTA MONICA BAY HOME TELEPHONE COMPANY be, and it is hereby, authorized to issue \$265,000.00 of its 5 per cent bonds and to deliver said bonds to The Pacific Telephone and Telegraph Company in part payment for the properties and in

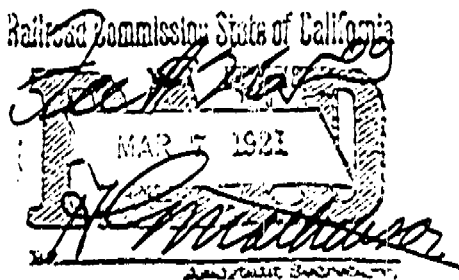
liquidation of advances referred to in the above entitled applications.

The authority herein granted is subject to further conditions as follows:-

- 1:--The authority herein granted will not become effective until Santa Monica Bay Home Telephone Company has paid the fee prescribed in the Public Utilities Act.
- 2:--Santa Monica Bay Home Telephone Company shall keep such record of the issue and sale of the bonds and stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No.24, which order in so far as applicable is made a part of this order.
- 3:--The authority herein granted will apply only to such bonds and stock as may be issued and delivered on or before July 1, 1921.

March
~~January~~, 1921.

Dated at San Francisco, California, this 3rd day of



Frank DeLore
H. D. Loveland
H. T. Brundage
Charles H. Powell

Commissioners.