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Decision No. 9916

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of)
CALIFORNIA TELEPHONE AND LIGHT COMPANY)
for an order of the Railroad Commission)
of the State of California authorizing)
said CALIFORNIA TELEPHONE AND LIGHT)
COMPANY to issue additional shares of)
its six per cent. cumulative preferred)
capital stock.)

Application No. 7385

Leo H. Susman for Applicant.

BENEDICT, Commissioner.

O P I N I O N

CALIFORNIA TELEPHONE AND LIGHT COMPANY asks permission to issue \$206,200.00 par value of its 6 per cent. cumulative preferred stock. Applicant asks permission to issue \$154,600.00 of the stock to reimburse its treasury on account of earnings invested in properties from March 1, 1913 to September 30, 1921, and to sell \$51,600.00 of the stock at not less than \$80.00 per share and use the proceeds to pay in part the cost of additions, betterments and improvements installed subsequent to October 31, 1921.

At the hearing had on this application on December 15th, applicant was requested to file with this Commission a statement showing the investment in its properties since the appraisal of its properties by the Commission's engineering department. Such statement has been filed by applicant. It shows that the total of the Railroad Commission's engineering department's appraisal, which is as of June 30, 1916, and the cost of additions and betterments to November 30, 1921, amounts to \$1,151,938.08.

Applicant reports stocks and bonds outstanding as

follows:

Common stock,	\$764,850.00
Preferred stock,	343,886.66
Bonds,	602,900.00
Total,	<u>\$1,711,636.66</u>

Applicant's current liabilities are reported at \$99,047.53 and its current assets, exclusive of materials and supplies, at \$53,860.46. Materials and supplies are excluded from the current assets for the reason that they are included in the figure showing the company's investment as of November 30, 1921.

As of October 31, 1921, applicant reports an accumulated surplus of \$161,645.21 as compared with a surplus of \$12,121.94 on January 1, 1916. The increase in the accumulated surplus is in general accounted for by the investment of surplus earnings in properties.

In Exhibit No. 3, applicant reports that from March 1, 1913 to October 31, 1921, it expended for additions and betterments the sum of \$512,127.44. Applicant's Exhibit No. 6 shows that of these expenditure, \$321,801.36 have been financed through the issue of stock and bonds. Deducting the \$321,801.36 from the \$512,127.44 leaves \$190,326.08 which represents capital expenditures which applicant alleges have not been paid for with the proceeds obtained from the sale of stock or bonds. Applicant now asks permission to issue \$154,600. of stock to reimburse its treasury in part on account of the reported expenditures of \$190,326.08, which applicant claims were made solely from the surplus earnings and which would have been available for dividends had they not been reinvested in plant and properties. I question the correctness of applicant's conclusion that all of the \$190,326.08 might have been distributed in dividends had that amount not been invested in properties. I do this for the reason that it appears from applicant's statements that the moneys represented by its

reserve for accrued depreciation reported on October 31, 1921 at \$90,616.28, have been invested in applicant's business and that the moneys represented by such reserve would not be available for the payment of dividends. Applicant's accumulated surplus is in excess of \$154,600.00 and it is therefore not necessary to determine what part of the \$90,616.28 reported under "Reserve for Accrued Depreciation" represents investment in additions and betterments. The application can be granted without such a determination.

After reimbursing its treasury, the company intends to deliver the \$154,600.00 of stock to the holders of the present outstanding stock in liquidation and payment of all accumulated and unpaid dividends on the preferred stock, -such stock to be delivered on the basis of one share for each \$80.00 of accumulated dividends. As stated above, applicant as of October 31, 1921, reported \$343,886.66 of preferred stock outstanding. No dividends have been paid on this stock since December 20, 1915. From that date to December 20, 1921, the accumulated dividends amount to \$123,686.21.

Applicant's officers are of the opinion that if the accumulated dividends are paid in the manner indicated, it will be able to sell preferred stock to pay part of the cost of additions and betterments. It asks permission to sell \$51,600.00 of stock at \$80.00 per share to secure funds to pay for additions and betterments referred to in its Exhibit No. 5. In this exhibit, applicant estimates that during 1922, it will be called upon to expend on its telephone properties for additions and betterments the sum of \$19,809.11, on its electric properties the sum of \$68,266.91 and for general equipment the sum of \$2,378.20, making a total of \$90,454.22. The order herein will permit applicant to issue and sell \$51,600.00 of stock at 80 for the purpose of paying in part for additions and betterments/subsequent to ^{installed} October 31, 1921. Before

using any of the moneys for these purposes, applicant will be required to file with the Commission a detailed statement of moneys actually expended for additions and betterments. On the filing of such statement, the Commission will make such supplemental order or orders permitting the use of the proceeds as it may deem proper.

Mr. A.F. Hockenbeamer, one of applicant's directors, testified that in his opinion the greater majority, if not all, of the present holders of preferred stock will agree not only to accept stock in payment for their unpaid accumulated dividends, but also agree to purchase a part of the \$51,600. of additional stock offered for sale.

In Decision No. 721 dated June 30, 1913, (Vol. 2, Opinions and Orders of the Railroad Commission of California, pgs. 1002-13) the Railroad Commission ordered applicant to set aside from income each year for ten years beginning with the calendar year 1914 the sum of \$2,500.00 in addition to such sums as may be required to be set aside for sinking fund or depreciation purposes under its first mortgage and deed of trust, and in addition to such sum as the Commission might thereafter require it to set aside for depreciation. Statements filed by applicant show that it has set aside annually the sum of \$2,500.00. Under the order of the Commission, applicant was permitted to use the annual sum of \$2,500.00 either for the purpose of retiring bonds or for the purpose of paying for additions and betterments which should remain uncapitalized. The company has heretofore advised the Commission that it will use the annual payment of \$2,500.00 for financing additions and betterments to its properties. Up to October 31, 1921, \$19,583.33 of earnings have been appropriated for this purpose. The \$19,583.33, it appears to us, should be deducted from the company's alleged uncapitalized expenditures of \$190,326.08, as of October 31, 1922. If this is done, there remains uncapitalized a reported expenditure of \$170,742.75, an amount in excess of the stock which

applicant asks permission to issue to reimburse its treasury.

I herewith submit the following form of Order.

O R D E R

CALIFORNIA TELEPHONE AND LIGHT COMPANY having applied to the Railroad Commission for permission to issue preferred stock, a public hearing having been held and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required for the purposes specified herein and that the expenditures herein authorized are not reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED, that CALIFORNIA TELEPHONE AND LIGHT COMPANY be, and it is hereby, authorized to issue on or before June 30, 1922, \$206,200.00 of its 6 per cent. cumulative preferred stock.

The authority herein granted is subject to the following conditions:

- 1.--Of the stock herein authorized to be issued \$154,600.00 shall be used for the purpose of reimbursing in part applicant's treasury on account of surplus earnings invested in additions, betterments and improvements to its properties prior to October 31, 1921. Following the reimbursement of applicant's treasury, the stock may be delivered to the holders of outstanding preferred stock in liquidation and payment of all accumulated and unpaid dividends on the preferred stock, such \$154,600.00 of stock to be delivered on the basis of \$80.00 per share and under the conditions outlined in the application and testimony.
- 2.--Of the stock herein authorized to be issued, \$51,600.00 shall be sold by applicant, for cash, at not less than \$80.00 per share and the proceeds deposited in a special fund

and expended only for such purposes as the Railroad Commission may hereafter authorize by a supplemental order or orders.

3.--California Telephone and Light Company shall keep such record of the issue, sale and delivery of the 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.

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 23rd day of December, 1921.

H. B. Rudick
A. D. Loveland
William W. Hart
Charles A. Howell
J. H. ...
Commissioners.