

Decision No. 15-21773

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

CONSOLIDATED TELEPHONE COMPANY,  
for an Order of the Railroad Commission of  
the State of California (a) authorizing Con-  
solidated Telephone Company to issue its  
first mortgage bonds, Series B, in the ag-  
gregate principal amount of \$300,000 to sell  
the same; said bonds to be secured by a Trust  
Indenture dated as of November 1, 1939, by and  
between Consolidated Telephone Company and  
Bank of America National Trust and Savings  
Association, Trustee, and by an Indenture sup-  
plemental thereto to be executed by and between  
Consolidated Telephone Company and said Bank  
as such Trustee; (b) Authorizing Consolidated  
Telephone Company to issue a common stock div-  
idend of \$12.50 per share on all of its out-  
standing common stock, all in accordance with  
the terms and conditions in this application  
hereinafter set forth.

ORIGINAL

Application  
No. 24014

BY THE COMMISSION:

O P I N I O N

In this proceeding Consolidated Telephone Company asks the Railroad Commission to enter its order authorizing said Consolidated Telephone Company to issue \$300,000, face value, of First Mortgage Bonds, Series B, 3-1/4%, due May 1, 1966, and to issue at par \$103,862.50 of common stock and distribute the same to its common stockholders as a stock dividend.

Consolidated Telephone Company, hereinafter some times referred to as applicant, is a corporation organized and exist-

ing under and by virtue of the laws of the State of California. It owns and operates a telephone system serving the City of Whittier and the territory adjacent thereto, including the City of La Habra and portions of Los Angeles and Orange Counties, together with the system formerly owned by the Downey Home Telephone and Telegraph Company serving Downey and territory adjacent thereto, including the communities of Norwalk, Artesia, and Bellflower, all in Los Angeles County.

For 1940, applicant reports operating revenues of \$428,271.73 and operating expenses of \$255,992.18, leaving net operating revenues of \$172,279.55. For the same year, applicant reports operating taxes of \$74,821.21; other income of \$703.90; and miscellaneous deductions from income at \$1,196.78, resulting in income available for fixed charges, dividends and surplus of \$96,965.46.

As of December 31, 1940, applicant's balance sheet shows assets and liabilities as follows:

<u>Assets</u>		
<u>Investments</u>		\$1,885,147.93
Telephone plant in service	\$1,829,186.73	
Telephone plant under construction	47,393.06	
Other investments	100.00	
Miscellaneous physical property	<u>8,468.14</u>	
		110,456.16
<u>Current Assets</u>		
Cash	5,904.14	
Due from customers & agents	48,747.05	
Accounts receivable	6,765.99	
Materials and supplies	<u>49,038.98</u>	
		5,942.95
<u>Prepaid Accounts</u>		
		41,021.92
<u>Deferred Charges</u>		
Discount on capital stock	21,325.00	
Capital stock expense	1,009.94	
Long-term debt expense	13,922.48	
Other deferred charges	<u>4,764.50</u>	
Total Assets		<u>\$2,042,568.96</u>

Liabilities

<u>Capital Stock - common</u>		\$ 830,900.00
<u>Bonds</u>		400,000.00
<u>Other Long-term Debt</u>		21,130.00
<u>Current Liabilities</u>		58,775.73
Accounts payable	\$ 57,594.73	
Customers deposits	200.00	
Other current liabilities	<u>981.00</u>	
<u>Accrued Liabilities Not Due</u>		31,098.20
Taxes accrued	\$ 28,297.28	
Unmatured interest, dividends and rent accrued	<u>2,800.92</u>	
<u>Deferred Credits and Reserves</u>		550,329.04
Premium on long-term debt	3,813.34	
Depreciation reserve	545,514.13	
Other deferred credits	<u>1,001.57</u>	
<u>Contributions of Telephone Plant</u>		18,809.87
<u>Unappropriated Surplus</u>		<u>131,526.12</u>
<u>Total Liabilities</u>		<u>\$2,042,568.96</u>

Under the authority granted by Decision No. 32597, dated November 29, 1939, in Application No. 23051, applicant issued and sold to The Connecticut Mutual Life Insurance Company at 101% of their face value and accrued interest \$400,000 of First Mortgage Bonds, Series A, 4%, due November 1, 1964. Applicant was authorized to use the proceeds realized from the sale of said bonds to pay indebtedness and the cost of additions and betterments to its properties.

Applicant now reports that it is confronted with a construction program which for 1941 and 1942 will entail an expenditure of about \$540,452, segregated as follows:

Additional central office and equipment and an addition to the central office building at Downey	\$125,600
Additional central office equipment at Artesia, Bellflower and Norwalk	11,900

Additional central office equip- ment and an addition to the central office building at Whittier	\$113,250
Central office equipment and building at La Habra	25,500
Additional central office equipment at Pico	2,400
New telephone instruments in 1941 and 1942	60,000
Outside telephone plant in Whittier and Downey areas	201,802

For the purpose of paying in part the cost of the proposed additions and betterments, applicant desires to issue \$300,000, face amount, of First Mortgage Bonds, Series B, 3-1/4%, due May 1, 1966. It is of record that applicant has entered into an agreement to sell such bonds to The Connecticut Mutual Life Insurance Company at 101% of their face value and accrued interest. It is further of record that The Connecticut Mutual Life Insurance Company will reduce the interest rate on the \$400,000 of bonds, which it now owns, from 4% to 3-1/4% per annum, payable semi-annually, and that the reduction of such interest rate will be effective on May 1, 1941; that is, the first semi-annual interest payment at the reduced rate will be due November 1, 1941.

Applicant has filed with the Commission a copy of its proposed first supplemental indenture defining the terms of the \$300,000 of Series B Bonds, providing for the reduction of the interest rate on applicant's outstanding bonds from 4% to 3-1/4%, payable semi-annually, and amending the original indenture in some other respects. We have reviewed this first supplemental indenture and find it to be in satisfactory form.

Applicant has an earned surplus of \$131,526.12. Its officers are of the opinion that it will be required to issue stock to finance in part its 1941 and 1942 construction expenditures. Prior to the issue and sale of additional stock, applicant desires to distribute to its present stockholders a common stock dividend of \$103,862.50. The payment of the stock dividend will, of course, not call for any cash disbursements. We have analyzed applicant's financial statements and find that its surplus represents undistributed earnings and that such earnings were invested in its properties. We, therefore, deem it appropriate to authorize applicant to issue at par \$103,862.50 of common stock to reimburse its treasury, as provided in the following order:

O R D E R

The Commission having considered the requests of Consolidated Telephone Company, and it being of the opinion that this is not a matter on which a hearing is necessary, that the money, property or labor to be procured or paid for by the issue of the bonds and stock herein authorized is reasonably required by Consolidated Telephone Company for the purposes herein stated, that the expenditures for said purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED as follows:

1. Consolidated Telephone Company may, after the effective date hereof and prior to October 1, 1941, issue and sell at

not less than 101% of their face value and accrued interest, \$300,000 of First Mortgage Bonds, Series B, 3-1/4%, due May 1, 1966, and use the proceeds to pay, in part, the cost of additions and betterments to its telephone properties to which additions and betterments reference is made in the foregoing opinion.

2. Consolidated Telephone Company may execute and deliver, after the effective date hereof and on or before October 1, 1941, a first supplemental indenture substantially in the same form as the first supplemental indenture filed in this proceeding on March 25, 1941, provided that the authority herein granted to execute said first supplemental indenture is for the purpose of this proceeding only, and is granted insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said first supplemental indenture as to such other legal requirements to which said first supplemental indenture may be subject.

3. Consolidated Telephone Company may, after the effective date hereof and on or before October 1, 1941, issue, at not less than par, not exceeding \$103,862.50 of common stock to reimburse its treasury because of income expended for telephone properties, and distribute said stock to its common stockholders as a stock dividend.

4. The authority herein granted will become effective when Consolidated Telephone Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Three Hundred (\$300.00) Dollars.

5. Within thirty (30) days after the execution of the first supplemental indenture to which reference is made herein, Consolidated Telephone Company shall file with the Railroad Commission two certified copies of said first supplemental indenture.

6. Consolidated Telephone Company shall file with the Railroad Commission such reports as are required by the Commission's General Order No. 24-A, which order insofar as applicable is made a part of this order.

Dated at San Francisco, California, this 1<sup>st</sup> day of April, 1941.

[Signature]

Justus P. Coe  
Francis D. Hancock  
Commissioners.

