

Decision No. 38207

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
F. F. WARREN and GRACE E. WARREN, Owners
of the McFARLAND TELEPHONE COMPANY, for an
Order Authorizing the Sale of Their Tele-
phone Property to FRED C. MITCHELL and
GLADYS A. MITCHELL, Husband and Wife, the
Latter to Mortgage the Property.

Application
No. 26902

BY THE COMMISSION:

ORIGINAL

O P I N I O N

This is an application for an order of the Railroad Commission authorizing the sale of certain public utility properties known as the McFarland Telephone Company, the execution of a mortgage and the issue of a note in the principal amount of \$16,500.

The application shows that F. F. Warren and Grace E. Warren, doing business under the firm name and style of McFarland Telephone Company, are engaged in furnishing telephone and telegraph service in the towns and communities of McFarland, Pond and Jasmine and surrounding territory, in Kern County, connecting with the lines of The Pacific Telephone and Telegraph Company.

It is reported that the present owners of the telephone system desire to dispose of the properties and to that end have made arrangements to sell them to Fred C. Mitchell and Gladys A. Mitchell for approximately \$26,500 under the terms of a contract dated August 21, 1945, a copy of which is filed in this proceeding as Exhibit "A". It is alleged that Fred C. Mitchell is a

telephone manager, having worked for twenty-five years in the telephone business with Kern Mutual Telephone Company, The Pacific Telephone and Telegraph Company, and other Bell telephone companies, and that he is thoroughly familiar with the system and properties of McFarland Telephone Company, and financially and otherwise is in a position to carry on its operations.

The agreed purchase price to be paid is the sum of \$100 for each subscriber station and \$50 for each extension to a subscriber station as of midnight, August 31, 1945. With approximately 260 subscriber stations and 10 extensions, the full purchase price will amount to \$26,500, of which \$10,000 will be paid in cash and the balance, approximately \$16,500, will be evidenced by a promissory note payable on or before ten years after date of issue with interest at the rate of 4-1/2 per cent per annum, payment to be secured by a chattel mortgage (Exhibit "E") on the fixtures and equipment of the telephone system.

F. F. Warren and Grace E. Warren report their investment in plant and equipment at \$11,907.95, with an accumulated reserve for depreciation of \$9,998.20, and revenues and expenses of the telephone system, for the years ending December 31, as follows:

	<u>1941</u>	<u>1942</u>	<u>1943</u>	<u>1944</u>
Operating revenue.	\$6,783	\$8,887	\$9,543	\$11,029
Operating expenses and taxes	<u>6,670</u>	<u>7,860</u>	<u>9,123</u>	<u>9,165</u>
Balance	113	1,027	420	1,864
Depreciation	<u>1,161</u>	<u>1,161</u>	<u>1,161</u>	<u>1,161</u>
Net	<u>\$ (1,048)</u>	<u>\$ (134)</u>	<u>\$ (741)</u>	<u>\$ 703</u>

We will authorize the transfer of the properties in accordance with applicants' request. However, in doing so, we are making no finding of value. At this time we wish to place the purchasers upon notice that we will not recognize the agreed

purchase price as a measure of value of the properties, if called upon to fix rates or issue securities, or as an amount chargeable in its entirety to telephone plant accounts. Under the uniform system of accounts prescribed for Class C telephone utilities the purchaser is required, at the outset, to charge the amount paid to Account 276--"Telephone plant acquired"--and thereafter to distribute the same to the telephone plant and other appropriate accounts in such manner as the Commission may approve or direct. Copies of the journal entries to record such distribution must be submitted to the Commission within sixty days from the date of acquisition of the properties by the purchaser. At this time we deem it appropriate to indicate that in our opinion the excess of the purchase price over the original cost of the properties, estimated if not known, less accrued depreciation, should be charged on the books of the purchaser, upon distribution of the purchase price, as a deferred charge and thereafter amortized over a period to be fixed by the Commission by charges to income or surplus.

The law provides that the Commission has no power to authorize the capitalization of a certificate of public convenience and necessity or the right to own, operate or enjoy the same in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity.

ORDER

Application having been made to the Railroad Commission for an order authorizing the sale and mortgage of property and the issue of a note, and the Commission having considered this matter and being of the opinion that a public hearing is not

necessary, that the requests of applicants should be granted, as herein provided, and that the money, property, or labor to be procured or paid for through the issue of a note for \$16,500 by Fred C. Mitchell and Gladys A. Mitchell is reasonably necessary for the purpose herein stated, therefore,

IT IS HEREBY ORDERED as follows:

1. F. F. Warren and Grace E. Warren, doing business under the firm name and style of McFarland Telephone Company may, after the effective date hereof and on or before December 31, 1945, sell their telephone properties to Fred C. Mitchell and Gladys A. Mitchell, such sale to be in accordance with the terms of the contract, dated August 21, 1945, filed in this proceeding as Exhibit "A".

2. Fred C. Mitchell and Gladys A. Mitchell, in order to pay in part for such telephone properties, may, after the effective date hereof and on or before December 31, 1945, execute a chattel mortgage in, or substantially in, the same form as that filed in this proceeding as Exhibit "E", and may issue a promissory note in the principal amount of not exceeding \$16,500, payable on or before ten years after date of issue with interest at the rate of 4-1/2 per cent per annum on the unpaid balance.

3. Fred C. Mitchell and Gladys A. Mitchell shall, prior to the purchase of said properties, file with the Commission a notice that they will adopt, effective concurrently with the said purchase, the sellers' tariff schedules, rules and regulations on file with the Railroad Commission.

4. Within thirty (30) days after the transfer of said telephone properties, Fred C. Mitchell and Gladys A. Mitchell shall file with the Railroad Commission a true and complete copy of each instrument of conveyance under which they acquire and hold

title to said properties, a copy of the chattel mortgage as executed under the authority herein granted, and a report as required by the Commission's General Order No. 24-A.

5. F. F. Warren and Grace E. Warren shall file with the Commission, within sixty (60) days after the transfer of the telephone properties under the authority herein granted, a financial report covering their telephone operations during 1945 from January 1 down to the date of transfer, such report to be prepared on the annual report form prescribed by the Commission.

6. The authority herein granted will become effective when Fred C. Mitchell and Gladys A. Mitchell have paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which fee is Twenty-five (\$25.00) Dollars.

Dated at San Francisco, California, this 12th day of September, 1945.

Harold Anderson
Justus F. Coe

Frank Clark

East Lane
Commissioners

