

Decision No. 39510

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 Associated Telephone Company, Ltd.,  
 a corporation, and Consolidated Tele-  
 phone Company, a corporation, for an  
 Order of the Commission (a) authorizing  
 Consolidated Telephone Company to trans-  
 fer and convey to Associated Telephone  
 Company, Ltd. its telephone properties  
 in its Downey Exchange, and to cease  
 public utility operations in said  
 Exchange and (b) authorizing Associated  
 Telephone Company, Ltd. to acquire the  
 telephone properties in the Downey  
 Exchange of Consolidated Telephone  
 Company and to enter and engage in the  
 telephone business in said Exchange.

ORIGINAL

Application  
No. 27820

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Gerald C. Kepple, for Consolidated Telephone Company;  
O'Melveny & Myers, by Harry L. Dunn; and Marshall  
K. Taylor, for Associated Telephone Company, Ltd.;  
Frank V. Rhodes, for California Independent Telephone  
 Association.

O P I N I O N

In this application, Consolidated Telephone Company asks permission to transfer, convey and assign to Associated Telephone Company, Ltd. all of its properties, both real and personal, within the area circumscribed in blue and green on the map attached to the agreement of sale on file in this application as Exhibit "D". The properties are referred to herein as the Downey Exchange area properties.

Consolidated Telephone Company owns and operates telephone properties in Whittier as well as in the Downey Exchange area. As of July 31, 1946, it reports its investment in telephone plant and its depreciation reserve as follows:

<u>Exchange</u>	<u>Investment</u>	<u>Depreciation Reserve</u>
Whittier Exchange	\$1,560,094.43	\$705,092.02
Downey Exchange	<u>1,149,959.39</u>	<u>284,974.22</u>
Total	\$2,710,053.82	\$990,066.24

Consolidated Telephone Company, as of July 31, 1946, reports 20,044 telephone stations, segregated as follows:

Whittier Exchange	11,555
Downey Exchange	8,489

Its held orders at the end of July are reported at 5,278, of which 1,691 are in the Whittier Exchange area and 3,587 in the Downey Exchange area.

The testimony shows that because of the increased demand for telephone service in both the Whittier and Downey Exchange areas, the need for improving such service and providing a margin of plant capacity, Consolidated Telephone Company is faced with an expenditure of about \$4,500,000 in five to ten years and with the setting up, part of which would be on a temporary basis, of a larger organization than it now has. Further, the company would be faced with serious financial problems in raising the money. Because of the uncertainty as to whether it can overcome the problems confronting it, the management of Consolidated Telephone Company has concluded to sell the Downey Exchange area properties to Associated Telephone Company, Ltd. The latter has agreed to pay for the properties a basic price of \$1,050,000 and in addition thereto, an amount equal to the sum of (a) all telephone plant under construction carried in Account 100.2 of Consolidated Telephone Company pertaining to said Downey Exchange area on the actual date of conveyance of said properties, and (b) gross additions, from May 31, 1946, to the date of actual conveyance, to telephone plant

in service carried in Account 100.1 of Consolidated Telephone Company pertaining to said Downey Exchange area, minus an amount equal to the sum of (a) the depreciation accrued on said gross additions during such time and (b) retirements from said Account 100.1 pertaining to the Downey Exchange area during such time, all as more fully set forth in said Exhibit "D".

Associated has sufficient funds on hand to pay cash for the Downey Exchange area properties. Consolidated Telephone Company proposes to use the consideration received for such properties to improve and enlarge its telephone service in the Whittier Exchange area.

Associated has larger financial resources than Consolidated Telephone Company, and experienced executives, engineers and other technical personnel to survey the Downey Exchange area situation and carry forward the necessary enlargement of the telephone plant and the improvement of the service in such area.

The transfer of the properties does not involve any change in rates. Associated will up-grade the four-party business service, a matter which Consolidated Telephone Company had agreed to do. Associated will file as its own the Consolidated Telephone Company rates applicable to the Downey Exchange area.

The testimony shows that Associated will transfer to its books the amounts at which the Downey Exchange area properties are recorded on the books of Consolidated Telephone Company, and that it will also transfer the depreciation reserve applicable to such properties. On the basis of the basic purchase price, about \$185,000 of the purchase price will be charged to Account 100.4-- Telephone Plant Acquisition Adjustments. Associated asks per-

mission to amortize the amount included in Account 100.4 during a ten-year period through operating expense Account 614--Amortization of Telephone Plant Acquisition Adjustments, rather than through the use of income Account 323--Miscellaneous Income Charges. Its auditor stipulated that if allowed to use Account 614 the company would not regard the amount included therein as an operating expense for the purpose of fixing rates. By the use of Account 614 the annual amortization would be, he testified, clearly identified as to its source and would not be confused with other items. A schedule in the telephone annual report forms, calls upon telephone companies to show the several items reported under Account 323. The amount included therein because of said amortization is specifically set forth in the schedule. The order herein will provide that any amount recorded under Account 100.4 shall be amortized through the use of Account 323.

O R D E R

The Commission has considered the evidence submitted at the hearing had on this application on September 27, 1946, before Examiner Fankhauser, and is of the opinion that the transfer, conveyance and assignment by Consolidated Telephone Company to Associated Telephone Company, Ltd. of the Downey Exchange area properties is in the public interest and that this application should be granted, as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

1. Consolidated Telephone Company may, after the effective date hereof and on or before December 31, 1946, transfer, convey and assign the Downey Exchange properties specified in

Exhibit "D" on file in this application, to Associated Telephone Company, Ltd. in accordance with the provisions of said Exhibit "D", and upon the transfer, conveyance and assignment of said properties cease public utility operations in said Downey Exchange area. Associated Telephone Company, Ltd. may acquire said properties and enter in and furnish telephone service in said Downey Exchange area, provided it adopts the rates of Consolidated Telephone Company applicable in said area and proceeds to file them in accordance with General Order No. 96.

2. Any amount which Associated Telephone Company, Ltd. is required by the uniform system of accounts for telephone companies to charge to Account 100.4 shall be amortized within ten (10) years after the acquisition of said properties through Account 323--Miscellaneous Income Charges.

3. The action taken herein shall not be construed to be a finding of the value of the properties herein authorized to be transferred.

4. Within sixty (60) days after the acquisition of said properties, Associated Telephone Company, Ltd. shall file with the Railroad Commission a copy of the deed and any other instrument under which it has acquired and holds title to said properties; also, a statement showing the consideration paid for such properties and the entries by which said properties and the purchase thereof are recorded on its books of account.

Dated at San Francisco, California, this 15<sup>th</sup> day  
of October, 1946.

Harold J. Huls  
Justin J. Greene  
Frank H. Lawrence  
R. E. Johnson  
- Commissioners