

ORIGINAL

Decision No. 39990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 :
THE PACIFIC TELEPHONE AND TELEGRAPH)
COMPANY; a corporation, and its)
 wholly-owned subsidiary, SOUTHERN)
CALIFORNIA TELEPHONE COMPANY, a)
 corporation,)
 :
 for an order authorizing said cor-)
 porations to merge into The Pacific)
 Telephone and Telegraph Company,)
 pursuant to the provisions of)
 Section 361 of the Civil Code of)
 the State of California.)
 -----)

Application
No. 28201

- Oscar Lawler, John A. Sutro and Arthur T. George,
for applicants.
- J. J. Deuel and Edson Abel, for California Farm
Bureau Federation, interested party.
- Frank V. Rhodes, for Independent Telephone Association,
interested party.
- K. C. Bean, Chief Engineer and General Manager, De-
partment of Public Utilities and Transportation of
the City of Los Angeles, and M. E. Gainer, Engineer
of same Department, interested party.
- John J. O'Toole, City Attorney, Dion R. Holm, Assistant
City Attorney, Paul L. Beck, Chief Valuation and Rate
Engineer for City and County of San Francisco,
interested party.

MITTELSTAEDT, Commissioner

O P I N I O N

The Pacific Telephone and Telegraph Company, herein-
 after sometimes referred to as the Surviving Corporation, and
 Southern California Telephone Company, hereinafter sometimes re-
 ferred to as Southern Company, ask permission to execute an agree-
 ment of merger in substantially the same form as the agreement of
 merger on file in this application as Exhibit "C". Upon the date

the agreement becomes effective, in accordance with and as provided by Section 361 of the Civil Code of the State of California, the two corporations will be merged into one of the constituent corporations, to wit, The Pacific Telephone and Telegraph Company, as the Surviving Corporation. At that time Southern Company will cease to exist, and the Surviving Corporation will succeed, without other transfer, to all the rights and property of each of the constituent corporations and the Surviving Corporation will be subject to all the debts and liabilities of each of the constituent corporations in the same manner as if the Surviving Corporation had itself incurred such debts and liabilities.

The Pacific Telephone and Telegraph Company is a corporation organized in 1902 under the laws of California. It is engaged in the transaction of telephone and telegraph business, either directly or through wholly-owned subsidiary corporations, in the States of California, Oregon, Washington, Nevada and part of Idaho, furnishing exchange and local telephone service and interstate and intrastate toll long distance telephone service and telegraph service. For 1946, it reports operating revenues of \$153,086,219.33. Its assets and liabilities as of December 31, 1946, appear on a subsequent page.

To eliminate dual telephone systems in the City of Los Angeles, The Pacific Telephone and Telegraph Company and Home Telephone Company of Los Angeles caused Southern Company to be incorporated on April 15, 1916, under the laws of California. Under the authority granted by Decision No. 3845, (1) dated November 4, 1916, it acquired the properties of the Home Company and

(1) Vol. 11 C.R.C. page 306.

the properties operated by the Pacific Company (except its toll lines) in Los Angeles and in certain municipalities and in unincorporated territory adjacent thereto. Subsequent to 1916, Southern Company acquired additional properties from The Pacific Telephone and Telegraph Company and from its subsidiaries, and also constructed properties, with the result that it now operates telephone properties situated in San Bernardino, Inyo, Ventura, Santa Barbara, Los Angeles, Riverside, San Diego and Imperial Counties. For 1946, it reports operating revenues of \$108,547,732.58. Southern Company has \$161,000,000 of common stock outstanding, all of which is owned by the Surviving Corporation. The testimony shows that the properties of Southern Company have, in effect, been operated as a division of the Surviving Corporation.

Southern Company on April 30, 1917, filed with the Commission a stipulation in which it agreed not to change its principal office from the City of Los Angeles. On the same date it accepted all the terms and conditions of Ordinance No. 6959 (new series) and Ordinance No. 35474 (new series) supplementing said Ordinance No. 6959 of the City of Los Angeles. Ordinance No. 35474 provided, among other things, that the principal office of the Southern Company, its successors or assigns, shall be located and remain in the City of Los Angeles. That provision of said ordinance was eliminated by Ordinance No. 91409, approved by the Council of the City of Los Angeles, on February 6, 1947.

The following statement shows the assets and liabilities of The Pacific Telephone and Telegraph Company, of Southern California Telephone Company, and of the Surviving Corporation as of December 31, 1946.

	<u>The Pacific Tel. and Tel. Co.</u>	<u>Southern Calif. Tel. Co.</u>	<u>Eliminations</u>	<u>Pro Forma The Pacific Tel. and Tel. Co.</u>
<u>Assets</u>				
<u>PLANT AND OTHER INVESTMENTS:</u>				
Telephone Plant in Service	\$434,384,630.55	\$290,721,572.43		\$725,106,202.98
Telephone Plant Under Construction	11,778,474.92	10,565,608.26		22,344,083.18
Property Held for Future Telephone Use	1,010,742.57	602,917.67		1,613,660.24
Telephone Plant Acquisition Adjustment	675,032.07	366,817.44		1,041,849.51
Total Telephone Plant	447,848,880.11	302,256,915.80		750,105,795.91
Miscellaneous Physical Property	77,492.44	503,330.89		580,823.33
Investments in Subsidiary Companies	219,079,927.39		207,004,927.39	12,075,000.00
Other Investments	648,232.88	463.60		648,696.38
Total Plant and Other Investments	667,354,532.82	302,760,710.19	207,004,927.39	763,410,315.62
<u>CURRENT ASSETS:</u>				
Cash	1,493,067.76	840,757.18		2,323,824.94
Special Cash Deposits	367,122.51	106,951.00		473,073.51
Working Funds	132,620.04	294,900.93		427,520.97
Notes Receivable	1,093.06			1,088.06
Accounts Receivable	17,372,004.17	12,241,184.89	1,062,930.88	28,550,258.18
Material and Supplies	8,170,306.19	6,285,964.37		14,456,270.56
Total Current Assets	27,526,208.73	19,768,753.37	1,062,930.88	46,232,036.22
<u>PREPAID ACCOUNTS AND DEFERRED CHARGES:</u>				
Prepayments	2,923,238.30	2,852,502.86		5,775,741.16
Discount on Capital Stock - Net	4,817,811.12	175,241.35	175,241.35	4,817,811.12
Other Deferred Charges	879,493.71	179,693.50		1,059,187.21
Total Prep. Accts. and Def. Chgs.	8,620,543.13	3,207,437.71	175,241.35	11,652,739.49
TOTAL ASSETS	\$763,801,284.68	\$325,736,906.27	\$208,243,099.62	\$821,295,091.33

Liabilities

CAPITAL STOCK:

Common Stock - par value (\$100 per share)
Preferred Stock - par value (\$100 per share)
Total Capital Stock

\$246,125,000.00	\$161,000,000.00	\$161,000,000.00	\$246,125,000.00
82,000,000.00			82,000,000.00
<u>328,125,000.00</u>	<u>161,000,000.00</u>	<u>161,000,000.00</u>	<u>328,125,000.00</u>

FUNDED DEBT:

Forty year 2-3/4% Deb. due Dec. 1, 1985
Forty year 2-7/8% Deb. due Oct. 1, 1986
Total Funded Debt

75,000,000.00			75,000,000.00
75,000,000.00			75,000,000.00
<u>150,000,000.00</u>			<u>150,000,000.00</u>

ADVANCES:

From American Tel. and Tel. Co.
From The Pacific Tel. and Tel. Co.

32,100,000.00			32,100,000.00
	46,150,000.00	46,150,000.00	

CURRENT AND ACCRUED LIABILITIES:

Advance Billing for Serv. and Cust. Dep.
Accounts Pay. and Other. Curr. Liab.
Accrued Liabilities Not Due:

2,294,797.93	1,523,187.66		3,817,985.49
21,019,341.48	12,948,607.44	1,062,930.88	32,905,018.04

Taxes

3,458,150.96	7,539,021.66		10,997,172.62
710,937.50			710,937.50

Interest

1,230,000.00			1,230,000.00
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Div. on Pref. Stock, payable Jan. 15, 1947

2,328.00			2,328.00
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Rents

<u>28,715,555.87</u>	<u>22,010,816.56</u>	<u>1,062,930.88</u>	<u>49,663,441.55</u>
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Total Curr. and Accrued Liab.

DEFERRED CREDITS:

Unamortized Premium on Funded Debt
Other Deferred Credits

3,016,934.38			3,016,934.38
75,414.59	33,304.36		108,718.95
155,210,354.91	95,791,619.66		251,001,974.57

DEPRECIATION AND AMORTIZATION RESERVES

6,528,024.93	751,165.69	30,168.74	7,249,021.88
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UNAPPROPRIATED SURPLUS

<u>\$703,801,284.68</u>	<u>\$325,736,906.27</u>	<u>\$208,243,099.62</u>	<u>\$621,295,091.33</u>
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TOTAL LIABILITIES

The testimony shows that if the merger had been in effect in 1946, a saving in income taxes of about \$642,000 would have been effected. A further saving of an estimated \$40,000 in operating expenses should result from the merger, in that inter-company accounts, filing of duplicate tariffs and reports, and preparation of balance sheets and income statements of the Southern Company will be eliminated. In addition, for the year 1947 there will be a saving of about \$74,000 in the California Unemployment Insurance Tax.

Applicants are planning no changes in the operating organization of Southern Company. F. N. Rush, vice president and general manager of Southern Company, will become a vice president of the Surviving Corporation in charge of operations of the Southern area of that company. This area is coterminous with the area now served by Southern Company. He testified that the merger of the two companies will have no adverse effect on the operations of the telephone properties in the Southern California area. The Surviving Corporation will prepare for the Southern California area operating reports similar to those now prepared by Southern Company. The books covering the Southern California area operations will be maintained in Los Angeles as they have been for many years.

No one appeared at the hearing to protest the granting of this application.

I submit the following form of order.

O. R. D. E. R

The Commission having considered the evidence submitted at the hearing on this application, and it being of the opinion that the merger of The Pacific Telephone and Telegraph Company and Southern California Telephone Company will not adversely affect the public interest, and that this application should be granted, therefore,

IT IS HEREBY ORDERED that The Pacific Telephone and Telegraph Company and Southern California Telephone Company may, on or before June 30, 1947, execute an agreement of merger in substantially the same form as the agreement of merger on file in this application as Exhibit "C".

IT IS HEREBY FURTHER ORDERED that within thirty (30) days after said agreement of merger becomes effective, the Surviving Corporation shall file with the Public Utilities Commission two certified copies of said agreement of merger.

IT IS HEREBY FURTHER ORDERED that the authority herein granted will become effective upon the date hereof.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Public Utilities Commission of the State of California.

Dated at San Francisco, California, this 25th day of February, 1947.

Harold D. Hull
Justus F. Cooper
Walter H. Powell
A. J. ...
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Commissioners