

ORIGINAL

Decision No. 43352

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
THE UNITED FARMERS' TELEPHONE AND :
TELEGRAPH COMPANY and INTERSTATE :
TELEGRAPH COMPANY, for authority :
to merge. :
----- :

Application
No. 30359

Willard G. Wade and H. M. Hammack, for Applicants;
Frank V. Rhodes, for California Independent Tele-
phone Association, interested party; J. G. Allard,
Chairman of Public Service Commission of Nevada,
interested party.

O P I N I O N

In this application as amended, The United Farmers' Telephone and Telegraph Company, hereinafter sometimes referred to as United, and Interstate Telegraph Company, hereinafter sometimes referred to as Interstate, ask the Public Utilities Commission to enter an order (a) authorizing United to merge into Interstate pursuant to the terms of the merger agreement on file in this application as Exhibit "2"; (b) authorizing United and Interstate to file and make effective on less than statutory notice and coincidental with said merger the tariff withdrawal notices and the revised tariff sheets shown in Exhibit "4" filed at the hearing had on this application; and (c) authorizing Interstate to issue 83,125 shares of its common stock of the par value of \$1 per share, or such other amount of stock as found proper by the Commission to effectuate the merger of United into Interstate.

United is a corporation organized on December 9, 1911, under the laws of Nevada. It owns and operates a telephone system located in the County of Douglas and portions of the Counties of Ormsby and Lyon in the State of Nevada, and in the County of Alpine and portions of the Counties of El Dorado and Mono in the State of California. The only central office building of United is located in the town of Gardnerville, in Douglas County, Nevada. This building houses, among other things, the business office of United and a manual switchboard and other central office equipment. From this Gardnerville central office a toll line extends in a northerly direction to Carson City, in Ormsby County, Nevada, where connection is made with the Bell Telephone Company of Nevada. Exchange telephone lines also radiate from the central office and provide exchange telephone service to the major portions of Douglas County, Nevada, and Alpine County, California, and to minor portions of Lyon County, Nevada, and El Dorado and Mono Counties, California. The only telephone service provided by United in Lyon County, Nevada, is to three subscribers at Wellington, and in El Dorado County, California, service is rendered to one subscriber at Bijou. Service in Mono County, California, is confined to the small portion extending from the north line of that county to a point about one mile south of the community of Coleville. Telegraph service is provided in the above described service area by United as agent for The Western Union Telegraph Company. The telegraph agency office is located in the central office building of United at Gardnerville, and is connected by a direct telegraph channel to The Western Union Telegraph office at Carson City.

The location of United's toll line and main exchange lines and its exchange area are shown on a map filed at the hearing on

this application in Exhibit "1". As of May 31, 1949, there were 675 telephones connected to United's system, of which 51 were located in California.

For the 12 months ended May 31, 1949, United reports operating revenues of \$49,863.92, segregated as follows:

| | |
|-----------------------------|--------------------|
| Local service | \$18,491.91 |
| Toll service | 30,689.54 |
| Miscellaneous | 931.31 |
| Less uncollectible revenues | <u>248.84</u> |
| Total | <u>\$49,863.92</u> |

For the same period United reports a net loss of \$22,073.75. Extensive reconstruction work on United's system has resulted in an abnormal maintenance expense and is largely responsible for the net loss.

As of May 31, 1949, United reports assets and liabilities as follows:

Assets

| | | |
|------------------------------------|--------------|---------------------|
| Investments: | | \$325,966.82 |
| Telephone plant in service | \$214,359.09 | |
| Telephone plant under construction | 111,607.73 | |
| Cash and working funds | | 8,924.58 |
| Accounts receivable | | 7,716.44 |
| Prepayments | | <u>78.40</u> |
| Total assets | | <u>\$342,686.24</u> |

Liabilities

| | | |
|--|-------------|---------------------|
| Common capital stock (10,000 shares) | | \$ 10,000.00 |
| Long term debt, advances from Mono Power Company | | 45,000.00 |
| Current liabilities: | | 165,942.92 |
| Due California Electric Power Company | \$ 1,978.84 | |
| Due Mono Power Company | 1,121.66 | |
| Due Interstate Telegraph Company | 157,310.42 | |
| Other accounts payable | 4,932.00 | |
| Customers' deposits | 600.00 | |
| Accrued liabilities not due | | 1,356.15 |
| Depreciation reserve | | 68,527.73 |
| Other deferred credits | | 194.50 |
| Earned surplus | | <u>51,664.94</u> |
| Total liabilities | | <u>\$342,686.24</u> |

Interstate is a corporation organized under the laws of Nevada. All of its outstanding stock and bonds are owned by California Electric Power Company. Interstate has toll stations located in Lyon and Esmeralda Counties, Nevada, and provides toll and exchange telephone service in the major portion of Mono County, the west portion of Inyo County, the east portion of Kern County, and certain areas of the west portion of San Bernardino County, California. Connections with The Pacific Telephone and Telegraph Company are made at Mojave, San Bernardino and Highland, California. As of May 31, 1949, the total investment in telephone plant of Interstate amounted to \$3,795,105.77, of which \$3,716,807.20 was invested in properties situated in California. It had 13 telephone exchanges, all of which were dial automatic exchanges, 5,608 exchange telephone stations and 120 toll stations connected to its service.

The area served by United, as shown on the maps filed as Exhibit "1," lies immediately to the north of the territory served by Interstate. The management of Interstate felt that the acquisition of United would be a valuable addition to Interstate and would provide it with a means by which a direct northern toll route could eventually be established between the Interstate system and the Bell system by a connection in Carson City, Nevada.

On March 30, 1946, E. J. Phillips, secretary and manager of United and the holder of a majority of the stock of United, agreed to sell his stock, to wit, 5,460 shares, to The Hydro-Electric Securities Company, a nonutility affiliate of Interstate and a subsidiary of California Electric Power Company. The Securities Company paid Phillips \$1,000 and agreed to pay him \$275 a

month, guaranteed by a surety bond, for the remainder of his life or for a period of 20 years, whichever period is the shorter. The total cost of the monthly payments computed on an annuity basis with an interest rate of 4% and using a life expectancy for Phillips of 15 years, is computed at \$37,177.86. Adding this to the \$1,000 cash payment makes an aggregate cost of \$38,177.86. The remaining 4,540 shares of United stock were acquired through cash payments by the Securities Company at a cost of \$40,809.99. The total cost of acquiring United's stock to May 31, 1949, is reported at \$83,124.93, segregated as follows:

| | |
|--|--------------------|
| Phillips' stock | \$38,177.86 |
| Minority stock | 40,809.99 |
| Guarantee bond, 1946 | 594.00 |
| Guarantee bond, 1947 | 544.50 |
| Guarantee bond, 1948 | 445.00 |
| Filing and escrow fees | 426.85 |
| Payments to Phillips for services rendered in acquiring minority stock | 250.00 |
| Property appraisal expense | <u>1,876.73</u> |
| Total | <u>\$83,124.93</u> |

In December, 1948, United's stock was transferred from The Hydro-Electric Securities Company to Mono Power Company, a subsidiary of California Electric Power Company. The testimony shows that Mono Power Company paid the Securities Company \$51,039.75 and assumed and agreed to pay all of the liability of the Securities Company under its agreement with E. J. Phillips, such liability being estimated at \$32,085.18. The actual payments which Mono Power Company must make to Phillips may be more or less than the amount stated, depending upon the period of time during which it must pay him \$275 a month.

It is now proposed to convert the 10,000 shares of outstanding United stock into common stock of Interstate. To effect

such a conversion, Interstate asks permission to issue 83,125 shares of its \$1 par value common stock, or such other amount as the Commission deems proper, to Mono Power Company in exchange for 10,000 shares of United stock.

United's balance sheet as of May 31, 1949, shows a net worth of \$61,664.94. The amount of stock which Interstate may issue should be related to the original cost of United's properties and not to the amount paid for the stock of United. If the merger is consummated, Interstate will in due time file with the Commission for its consideration and approval copies of its proposed journal entries recording the acquisition of the properties of United. Such journal entries should be predicated on data prepared in conformity with Instruction 31.2-21 for telephone plant accounts in the system of accounts prescribed by the Commission. At the time of approving the journal entries, the Commission will fix the amount of stock Interstate may issue in exchange for the stock of United. The order herein will authorize Interstate to issue 50,000 shares of the par value of \$1 each of its stock in part payment for stock of United. Upon the filing of said journal entries the Commission will give consideration to the issue of additional shares, and authorize the issue of such additional shares if the record warrants the same.

Said Exhibit "4" shows, among other things, the exchange area of United in California. In the vicinity of Colville, California, there is a gap about one mile wide of unassigned territory between the service area of United and that of Interstate. Applicants ask that this unassigned territory be added to the Gardnerville exchange area, thus making the southern boundary of that exchange area contiguous with the northern boundary of the Bridgeport exchange area.

of Interstate. The record shows that there is also an unassigned territory between the Gardnerville exchange area of United and the Tallac exchange area of The Pacific Telephone and Telegraph Company. The latter, according to the testimony, has agreed to the addition of such unassigned territory to the exchange area of the Gardnerville exchange. The areas in question are shown on the map filed as part of Exhibit "4".

The testimony shows that between March 30, 1946, the date when The Hydro-Electric Securities Company secured the right to acquire the majority of the outstanding stock of United, and May 31, 1949, United spent about \$220,000 for improvements and additions to its telephone plant. The improvements and additions include (a) increased and improved toll facilities between Gardnerville and Carson City; (b) improved and additional exchange lines in the Lake Tahoe area, between Lake Tahoe and Gardnerville, at Gardnerville and Minden and in the Coleville area; (c) metallicizing the portion of the Markleeville-Gardnerville exchange line between Markleeville and Woodfords; (d) installation of a new 6-position manual switchboard replacing the old and out-moded 2-position manual switchboard at the Gardnerville central office; (e) the conversion of 303 subscribers' stations or about 45 percent of the total number of subscribers' stations from magneto to common battery manual service.

After the merger is carried into effect, Interstate intends to continue the improvement program started by United. The plant additions and improvements to be made within the next two years include the following items:

(a) The installation of a 19-line automatic dial exchange at Coleville, California;

(b) The installation of a single channel carrier circuit between Gardnerville and Coleville on the existing Gardnerville-Coleville physical circuit;

(c) The installation of a 19-line automatic dial exchange at Woodfords, California, to serve Alpine County;

(d) The installation of a single channel carrier circuit between Gardnerville and Woodfords on the existing Gardnerville-Woodfords physical circuit;

(e) Installation of a 100-line automatic dial exchange at Lake Tahoe;

(f) Additions and improvements to the outside exchange plant at the Lake Tahoe, Genoa, Gardnerville, Minden, Markleeville, Woodfords, and Coleville areas including the rebuilding of the telephone line between Gardnerville and Lake Tahoe and a portion of the telephone line between Gardnerville and Coleville;

(g) Interconnection with the Yerington Electric Company's telephone system at Wellington, Nevada;

(h) Purchase of a joint pole interest in poles of the Sierra Pacific Power Company to replace the present pole contact arrangement;

(i) Conversion of the remaining magneto telephone stations to either dial automatic or common battery manual service.

The testimony shows that upon the merger of United into Interstate there will be no change in the present rates of United or Interstate, except that the present switching charge for messages between stations located on different exchange lines in the California portion of United's service area will be eliminated, and the present service connection charges and move and change charges made to subscribers of United in its California service area will be

increased to the level of such charges now made to subscribers of United in its Nevada service area and to the subscribers of Interstate in its entire service area. It is estimated that the net result of these two changes will be a decrease of \$40 in the total annual charges to subscribers located in United's California service area. The proposed rate filing which Interstate will make after the merger is contained in said Exhibit "4".

The record shows that the merger of United into Interstate will not adversely affect the service of applicants in California.

O R D E R

The Commission having considered the evidence submitted at the hearing had on this application and it being of the opinion that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required by Interstate Telegraph Company for the purpose herein stated, that the expenditures for such purpose are not, in whole or in part, reasonably chargeable to operating expenses or to income, that the rate filing proposed by Interstate Telegraph Company is justified, and that this application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. The United Farmers' Telephone and Telegraph Company and Interstate Telegraph Company may execute, on or before December

31, 1949, an agreement of merger, with the result that Interstate shall acquire, own and operate the portion of the properties, rights and system of United located in California and merge and consolidate the same into the system of Interstate, said agreement of merger to be in, or substantially in, the same form, except for the amount of stock referred to therein, as the agreement of merger on file in this application as Exhibit "2".

2. Interstate Telegraph Company, upon or concurrently with the merging of the properties of United into Interstate, may issue not exceeding 50,000 shares of its common capital stock of the par value of \$1 per share in part consideration for the stock of United.

3. Interstate Telegraph Company may file and publish, in accordance with General Order No. 96, the revised and additional tariff sheets set forth in Exhibit "4" filed at the hearing had on this application and, after not less than five (5) days' notice to the Commission and the public, make said sheets effective concurrently with the merging of the properties of United into Interstate, and on the same effective date, cancel and withdraw tariff sheets presently filed by United.

4. The unassigned territory referred to in the foregoing opinion and shown on the map attached to said Exhibit "4" may be added to the Gardnerville exchange area by United and/or Interstate.

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

6. Within thirty (30) days after the execution of said agreement of merger, Interstate Telegraph Company shall file with the Commission a certified copy of said agreement. It shall also file with the Commission a statement showing the number of shares of stock issued under the authority herein granted.

7. The authority herein granted is effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 4th day of October, 1949.

R. Z. [Signature]
Justin F. Gaeuer
Chas. F. Russell
Harold P. Kula
Rosameth Potter
Commissioners